DSG
Dillistone Group Plc

Dillistone Group Plc Annual Report 2012

Dillistone Group Plc is a global leader in the supply of technology solutions and services to the recruitment industry worldwide.

We provide software and services to recruitment firms and recruiting teams within major corporations.

Across our subsidiaries, we work with around 2,000 firms in approximately 60 countries.

Our two divisions are Dillistone Systems and Voyager Software. 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.

Highlights

Highlights for the year:

- Revenues up 29% to £7.1m
- Record level of recurring revenues of £4.5m up 39% from 2011
- Operating profits before exceptional items up 21% to £1.7m and after exceptional items up 25% to £1.5m
- EPS pre exceptional items up 15% to 7.20p and up 27% to 6.79p post exceptional items
- Final dividend of 2.5p per share recommended, making total dividend for year of 3.7p (a yield of 4.8% on a share price of 77p)
- Cash funds of £1.6m (2011: £1.6m) after acquisition payment. The Group remains debt free
- Voyager Infinity launched in September 2012

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

"2012 has been an excellent year for Dillistone. The Group has delivered a strong set of results whilst additionally continuing to develop its product offerings and to seek further acquisition opportunities."

Contents

Dillistone Group at a Glance

Dillistone Systems division

Dillistone Systems is the leading global supplier of software to executive search firms and to in-house search teams at major corporations and not-for-profit organisations. The Company's main product is FileFinder 10, which is the latest iteration of the FileFinder software system, launched in March 2011 and built using Microsoft .Net Framework technology. The Division is headquartered in the UK, but has offices in Germany, the United States and Australia and serves clients in more than 60 countries, generating more revenue from outside the UK than from its home market.

Dillistone Systems is widely acknowledged to be the market leader in the executive search software sector, and is also considered to be a thought leader in this space. As a result, the Company has also moved beyond the supply of software, and provides additional services including training in executive search techniques, marketing and advertising services, and also runs regular conferences which are open to both client and non-client firms.

Dillistone
Systems
Dillistone.com

www.dillistone.com

Voyager Software division

Voyager Software became a part of the Dillistone Group in September 2011. At the time of its acquisition by Dillistone, it provided end-to-end recruitment solutions principally to the third party recruiting sector. Voyager's products included Voyager Professional, Voyager Commercial, Voyager VDQ! and Voyager Mid-Office, a product range largely used by temp and contract recruiters. In September 2012, Voyager launched its next generation software platform, Voyager Infinity. Voyager Infinity is designed to improve the performance of recruitment companies specialising in both contract and permanent placements. Infinity meets the demands of flexibility and functionality required by these firms, putting it at the forefront of software available to the recruitment industry. As with FileFinder 10, Infinity has been built using the state of the art Microsoft. Net Framework technology and replaces the Voyager Professional product. The Voyager products are used in over 20 different countries by many thousands of users in different-sized recruitment businesses. The Division has offices in the UK and Australia and employs around 35 people.

Voyager
the recruiter's choice

www.voyage.co.uk

Timeline

1983
The original FileFinder software was developed by David Dillistone, himself a retained search consultant. While it was initially created for in-house use, David soon realised that there was a market for it beyond his own firm, and so he created David Dillistone Systems.

1990
By the late 1990s, David had retired and the business – now renamed as Dillistone Systems – was owned by Custom Business Systems. CBS invested heavily in the firm and, by the end of the decade, offices have been established on three continents.

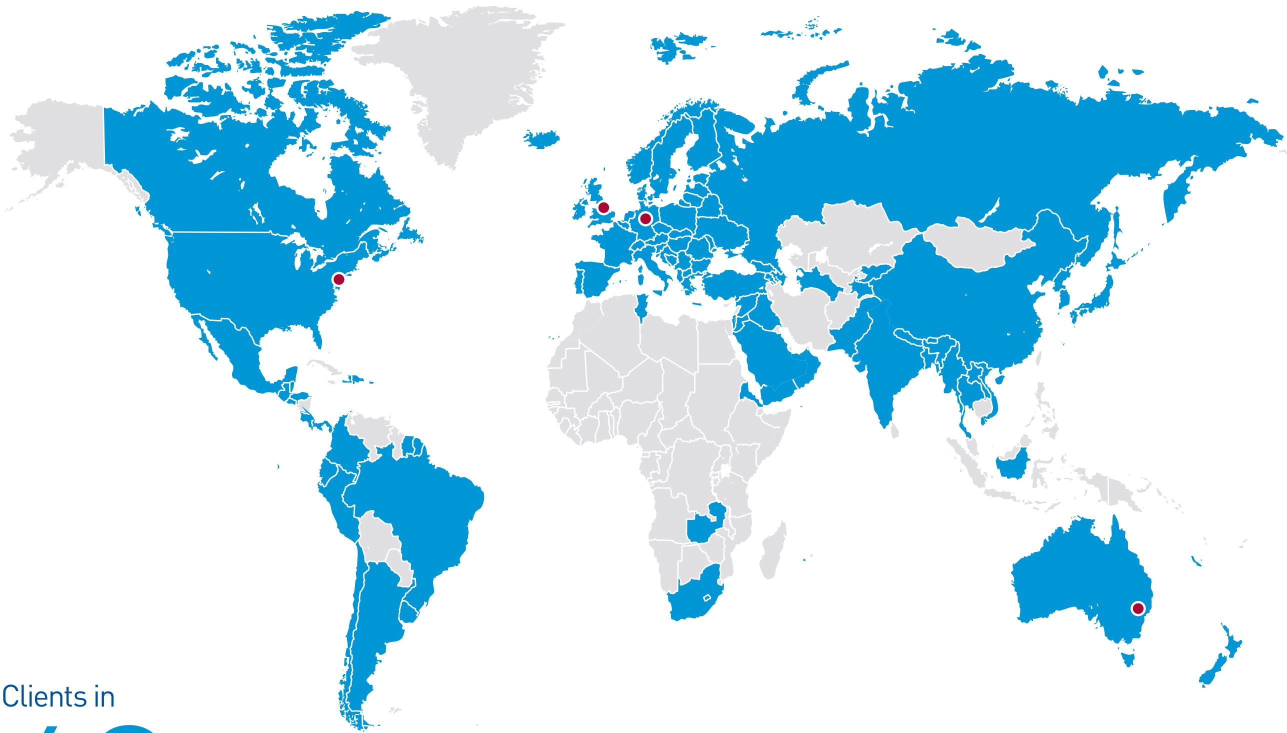
2003
In 2003, the current management team took part in a management buyout of the business. The dawn of the Internet meant that it became far easier to sell the FileFinder system internationally, and, as a result, Dillistone Systems grew rapidly.

"FileFinder cuts the time it takes not only to find the people, but to get them into the system. We have so many searches and now I can be more effective."

Mike Costello, Executive Sourcing Manager of McIntyre Global Executive Search.

Global reach

Dillistone Group has offices in the UK, US, Germany and Australia, serving around 2,000 firms in over 60 countries



Clients in

60+

countries

2006
In 2006, the Group floated on the AIM market of the London Stock Exchange (DSG.L).

2008
In 2008, a decision was taken to significantly increase R&D expenditure, and the development of the next generation of FileFinder began.

2011
In March 2011 FileFinder 10 was released after over two years of development.

In September 2011 the Group made its first acquisition of Voyager Software.

2012
In September 2012 Voyager Infinity was launched after three years of development.

2013
Today, the Dillistone Group is profitable, debt free and cash generative. It is proud to work with over 2,000 firms in over 60 countries. It has offices in four countries and employs around 90 people.

Chairman's Statement

The Group has again enjoyed a successful year in 2012, achieving a number of its shorter and longer term objectives, despite the continued economic difficulties. A strong set of results was delivered showing a profit before exceptional items of £1.311m (2011: £1.084m) and after exceptional items was £1.235m (2011: £0.926m).

The Group has two trading divisions, Dillistone Systems and Voyager Software. Both Divisions made a valuable contribution to our financial results whilst also delivering on important operational milestones.

Strategy

The Group's strategy is to grow the business both organically and through acquisition. This strategy is made possible by our commitment to product development, which ensures that the business continues to command a leading role in all of the markets in which it operates.

Our acquisition strategy entails consideration of firms 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.

2012 represents our first full year of ownership of Voyager Software, and the integration of Voyager Software into the Group has progressed well.

Whilst recognising the importance of delivering high quality products with distinct and recognised brands, we are additionally looking to realise the benefits of synergies where this can be achieved in a manner which will protect and enhance the customer experience.

It is the view of the Board that product development is fundamental to the long term success of the business and as a result 2013 will see us continue to invest in the development of software within both of our Divisions.

Dividends

The Board was pleased to increase the interim dividend payment in September 2012 to 1.2p (2011: 1.1667p). The Board has recommended a final dividend of 2.5p per share, subject to shareholder approval, payable on 26 June 2013 to holders on the register on 31 May 2013. Shares will trade ex-dividend from 29 May 2013. This takes the total dividend based on the 2012 results to 3.7p, and gives a yield of 4.8% on a share price of 77p. With dividend cover approaching two times, the Group is now better placed to implement its progressive dividend policy, subject to the prevailing cash needs of the business.

Staff

Our staff are fundamentally important to the success of the business. 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 them.

A strong set of results

Outlook

Dillistone Systems has seen improving orders, with Q1 of 2013 being the best quarter since Q2 of 2011 in terms of new business wins. Voyager Software sells a number of products and whilst the strength of the order intake has varied across the range, the Board is pleased to note that incoming orders for the next generation Infinity product are well up on the levels achieved by the predecessor product, Professional, in the equivalent period in 2012. This has allowed the Division to also show year-on-year growth in new business sales.

Despite these positive trends, in what remains an unpredictable economic climate, we remain cautious.

Dr Mike Love
Non-Executive Chairman

"The Group's strategy is to grow the business both organically and through acquisition. This strategy is made possible by our commitment to product development, which ensures that the business continues to command a leading role in all of the markets in which it operates."

Business Review

2012 saw recurring revenue grow 39% to £4.529m (2011: £3.248m) reflecting a full twelve months of Voyager Software recurring revenues being included in Group results for the first time. Recurring revenues represent 64% of revenues (2011: 60%).

Pre-tax profits before exceptional items increased 20% to £1.684m (2011: £1.405m). Despite the difficult economic backdrop experienced in 2012, both of our Divisions delivered what we consider to be laudable results whilst also continuing to invest in our future.

Dillistone Systems

In my 2011 report, I wrote that Dillistone Systems' next generation product had been well received. I am delighted to say that, despite an economic environment which saw the retained search market shrink by over 6%, our install base has continued to grow, with a new client signing up for FileFinder every other working day.

Beyond the numbers, however, what is particularly pleasing is the diversity of uptake. Whilst the bulk of our clientele remains the executive search industry, 2012 also saw us implement the system on behalf of organisations as varied as a university in Australia, a financial services firm in Asia, a retailer in the UK and an engineering firm in the US. Clients using FileFinder range from sole traders up to both FTSE 100 and Fortune 100 firms, and we have won clients from our direct competitors in both the UK and the US.

"Both of our Divisions delivered what we consider to be laudable results whilst also continuing to invest in our future."

It is the view of the Board that, as the economic environment improves, the strength of our products and services will create a strong opportunity for further organic revenue growth.

Dillistone Systems also launched "The World Executive Search Congress" in Las Vegas in March 2012. This event provided the Group with a unique opportunity to market its products and services whilst also making a financial contribution to the business in its own right. Following a successful inaugural event in 2012, our 2013 event took place in March 2013 and was again very well received. Indeed, in just two years, the event has grown to become – we believe – the largest and most international event of its type. The Company has also announced plans to host a "European Executive Search Congress" in London later this year.

The development teams within the two Divisions have started to work more closely together and one of the synergy benefits during 2012 for the Dillistone Systems division was the development of the existing Voyager Mid Office product to allow it to integrate with the FileFinder product. The first live implementation of the integrated products occurred at global life sciences executive search and interim management firm, RSA in January 2013. 2012 has also seen the launch of our web application for mobile devices "FFMobile", an in-house developed webapp, and additional improvements to the core product.

Dillistone Systems' head office is based in London and it has offices in the US, Germany and Australia. The Division accounts for 66% of the Group's revenue and saw recurring revenue grow 9% to £3.144m (2011: £2.874m). Its revenues reflected the economic environments of the territories we serve with sales into the Americas showing good growth, whilst other regions were slightly disappointing. As a whole, the Division saw segmental operating profit before amortisation and depreciation increase by 1% to £1.912m (2011: £1.889m).

Investing in our future

Revenue	2012 £'000	2011 £'000
Recurring income	3,144	2,874
Non-recurring income	1,522	1,885
	4,666	4,759

Voyager Software

The Group acquired Voyager Software in September 2011, and so the year in review is the first full year under our ownership. As a result, it has been a year of transition for this Division. The business has made a good contribution to our results in its first year and enters 2013 in a position where we believe significant organic growth is possible.

Voyager spent much of 2012 preparing to launch the new "Voyager Infinity" platform. This is the next generation successor to the "Voyager Professional" platform which had historically been the most successful of the Voyager products.

Launched in September 2012, the Voyager Infinity product has been well received and contracts have been received from both new clients along with existing clients wishing to upgrade. The product has been implemented both in the UK and in Australia where the Voyager business now shares offices with Dillistone Systems in Sydney.

In 2012, the Voyager Software division accounted for 34% of Group revenues. The Division's revenues were £2.386m and it had a segmental operating profit before amortisation and depreciation of £0.484m. Revenues of £0.689m and a segmental operating profit before amortisation and depreciation of £0.168m were included in the accounts in 2011 which covered the period of ownership by the Group from 21 September 2011 to the year end.

Revenue	2012 £'000	2011 £'000
Recurring income	1,385	374
Non-recurring income	618	237
Third party revenues	383	78
	2,386	689

Although both Divisions are run separately, increasing synergies are being delivered. These are both operational – for example, the standardisation of certain systems and infrastructure – and technical – with the configuration of the Voyager Mid Office application to work alongside the Dillistone Systems' FileFinder product. Both Divisions are committed to continuing to invest in their products to ensure they retain their market leading positions.

Jason Starr
Chief Executive

Financial Review

Total revenues increased by 29% to £7.052m (2011: £5.448m), with profit before tax and exceptional items up 20% to £1.684m (2011: £1.405m).

Total revenues increased by 29% to £7.052m (2011: £5.448m), with profit before tax and exceptional items up 20% to £1.684m (2011: £1.405m). Recurring revenues increased by 39% to £4.529m (2011: £3.248m). Non-recurring revenues saw an increase of 1% to £2.140m from £2.122m in 2011. Third party software product sales amounted to £0.383m in the period (2011: £0.078m). These results reflect a full 12 months of Voyager Software revenues.

Cost of sales increased by 96% to £0.864m (2011: £0.441m), reflecting the full year impact of Voyager, World Congress costs and also an exceptional item of £0.056m relating to the buyout of an onerous supplier contract in Voyager.

Administrative costs, excluding exceptional items, rose 26% to £4.573m (2011: £3.627m), again largely down to the full year impact of Voyager. Exceptional administrative costs totalled £0.102m (2011: £0.172m) and relate to tax and NI on options exercised by Voyager employees pre acquisition, amortisation of intangibles arising on the Voyager acquisition offset by a reduction in the estimated contingent consideration payable. Interest income has also been offset by the unwinding of the discount in respect of the deferred consideration.

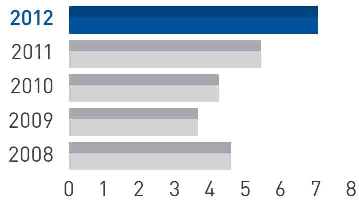
Recurring revenues covered 99% of administrative expenses before exceptional costs (2011: 90%). Excluding depreciation and amortisation of our own internal development, the administrative costs are more than covered at 107% (2011: 96%).

Tax has been provided at an effective rate of 22% (2011: 23%) excluding exceptional items and at 18% (2011: 25%) post exceptional costs. These rates reflect the R&D tax credits available to both Dillistone Systems and Voyager Software that have been claimed, partially offset by the higher rates of corporation tax that are payable overseas. The post exceptional rate also reflects the reduction in deferred consideration which does not have a tax impact.

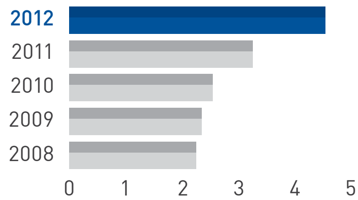
Profits for the year before exceptional items rose 21% to £1.311m (2011: £1.084m) and profits for the year after exceptional items increased by 33% to £1.235m. Basic EPS rose 15% to 7.20p (2011: 6.26p) before exceptional items and 27% to 6.79p (2011: 5.34p) after exceptional items. Fully diluted EPS rose 15% to 7.18p (2011: 6.23p) and 27% to 6.76p (2011: 5.32p) after exceptional items.

Key performance indicators

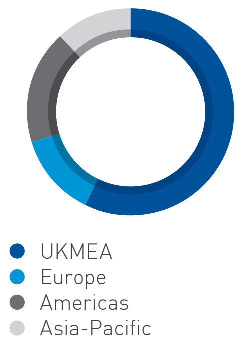
Total revenue
£millions



Recurring revenues
£millions



Revenue
by region



"Profits for the year before exceptional items rose 21% to £1.311m (2011: £1.084m) and profits for the year after exceptional items increased by 33% to £1.235m."

Strong performance

Capital expenditure

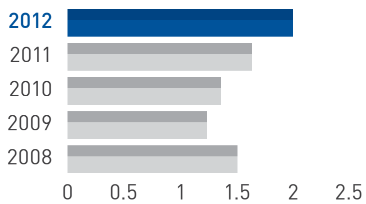
The Group invested £0.872m in fixed assets and product development during the year (2011: £0.661m). This expenditure included £0.803m (2011: £0.580m) spent on development costs, of which £0.403m relates to development in Voyager Software (2011: £0.101m), that has been capitalised under IFRS in the Group accounts. The 2011 expenditure for Voyager Software covers the period of ownership by the Group from 21 September 2011 to the year end.

Trade and other payables

As with previous years, the liability includes income which has been billed in advance but is not recognised as income at that time. This principally relates to support renewals which are billed in December 2012 but that are in respect of services to be delivered in 2013. Support 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 complete or the client software goes "live". Also included in trade and other payables is £0.360m (2011: £0.499m) relating to consideration and contingent consideration due to Voyager shareholders. The contingent consideration is dependent on the level of revenue achieved by the Voyager Software division in the periods up to 31 December 2013.

Key performance indicators

EBITDA
£millions



Cash

Dillistone finished the year with cash funds of £1.643m (2011: £1.617m) and remains debt free. This is after capital expenditure of £0.872, payment to the vendors of Voyager of £0.098m and dividend payments of £0.643m (2011: £0.609m).

Julie Pomeroy
Finance Director

Board of Directors

1.


2.


3.


4.


5.


6.


7.


1. Mike Love, aged 64, Non-Executive Chairman.
Mike Love has a PhD in theoretical physics and over 30 years' experience in the software industry. He is currently non-executive chairman of SciSys plc, also an AIM quoted company, and director and chairman at Redcliffe Precision Ltd. He was group managing director of SciSys from 1986 to 2003 during which time he led a management buy-out of the business and floated it on AIM in 1997. He is a previous member of the AIM Advisory Group of the London Stock Exchange.

2. Jason Starr, aged 41, Chief Executive.
Jason Starr joined Dillistone Systems in 1994. He became Marketing Manager in 1996 before becoming Managing Director of the UK business in 1998. Following the MBO, Jason became Managing Director of Dillistone Systems Limited and subsequently became Group Chief Executive Officer. Jason is well known in the industry and has spoken at events in Asia, the US and Europe.

Jason has a BA (Honours) business studies degree from the London Guildhall University.

Jason Starr is the Group Chief Executive of Dillistone Group Plc and Managing Director of Dillistone Systems. As well as being Managing Director he also has responsibility for the sales and marketing departments of the Division.

3. Rory Howard, aged 45, Operations Director.
Rory Howard has a BA (Honours) in business administration and is a PRINCE2 practitioner. Rory started his career with the Dixons Stores Group and from 1991 to 1994 he worked in the systems and control department as a technical support analyst working on their EPOS systems, data reporting and security. He then joined JATO Dynamics Ltd, a software company specialising in the automotive research market, as a database analyst, developing databases for pricing models for the large automotive manufacturers. In 1998 he joined Dillistone Systems Limited as a Project Manager, and the following year became the Global Projects Manager, tasked with restructuring all implementations and data migrations procedures and operations. In 2003 Rory became Operations Director of Dillistone Systems Limited and a member of the Board.

4. Alex James, aged 40, Director of Product Development.
Alex graduated from Swansea University in 1995 with a degree in psychology. In 1995 Alex joined Mallinckrodt Veterinary working in quality control. In 1997 he moved to Responseability, a company that manages aspects of the recruitment process for clients, starting in administration before progressing into an account management role. Alex started at Dillistone in 1999 in a training/consultancy position prior to becoming the UK and then Global Projects Manager, being ultimately responsible for the implementation of all products and services to both new and existing clients. Alex joined the Board of Dillistone Systems Limited in January 2005 and the Group Board in February 2006.

Alex James is the Director of Product Development for Dillistone Systems; departments under his responsibility are software development and technical integration.

5. Alistair Milne, aged 37, Director of Support Services.
Alistair started his career at Richmond Theatre in 1994, working in both the marketing department and box office. In 1997 he joined The Football Association, initially in a ticketing administration role, before progressing to a management role. Alistair then began working at the Shaw Theatre as box office manager. He joined Dillistone Systems in 2003, initially in a training and support role. He was initially appointed to the UK and then Global Support Manager role with responsibility for all aspects of support services. He was promoted to the Dillistone Systems Ltd Board in 2006 and joined the Group Board in January 2011.

Alistair Milne is the Director of Support Services; he oversees all Dillistone IT infrastructure and support services globally.

6. Julie Pomeroy, aged 57, Finance Director.
Julie is an experienced finance director of quoted and private companies. She graduated with an honours degree in Physics from Birmingham University and is a chartered accountant and chartered director. She also holds tax and treasury qualifications. Julie was group finance director of Carter & Carter Group plc until October 2005 having joined in 2002 to help grow and float the business. She had previously been chief financial officer of Weston Medical Group plc and prior to this Julie worked at East Midlands Electricity plc as director of corporate finance. She was finance director of AIM quoted Biofutures International plc until July 2010. Julie is also a non-executive director of Nottingham University Hospitals NHS Trust.

7. Giles Fearnley, aged 58, Non-Executive Director.
A career in the passenger transport industry saw Giles lead an MBO in 1991 forming Blazefield Holdings Limited, a business operating bus networks principally across Yorkshire and Lancashire. This company was sold to Transdev in 2006.

In 1997 he was appointed chief executive of Prism Rail PLC, having been one of that company's founders, and held that position until its sale to National Express in 2000. Prism Rail operated four of the UK's passenger rail franchises with a turnover of £500 million per annum.

Giles is currently managing director – Bus, UK and Ireland for First Group Plc. Giles served as chairman of the association of Train Operating Companies in 1999/2000 and as chairman of The Confederation of Passenger Transport UK.

Directors' Report

The Directors present their report and financial statements for the year ended 31 December 2012.

Principal activities and review of the business
The principal activity of the Company continued to be that of a parent company. The principal activity of the Group is the development and sale of specialist computer software and the provision of related support services. A review of the business is contained on pages 6 and 7.

Results and dividends
The consolidated statement of comprehensive income for the year is set out on page 21.

An interim dividend of 1.2p per share was paid in June 2012. A final dividend of 2.5p per share will be paid, subject to shareholder approval, on 26 June 2013.

Key performance indicators
The Board and management use absolute figures to monitor the performance of the business in the following financial KPIs:

	2008 £'000	2009 £'000	2010 £'000	2011 £'000	**2012 £'000**
Revenues	4,608	3,655	4,251	5,448	**7,052**
Recurring revenues	2,246	2,344	2,536	3,248	**4,529**
Non-recurring revenues	2,362	1,311	1,715	2,122	**2,140**
Other revenue	–	–	–	78	**383**
Profit before tax and exceptionals	1,426	1,081	1,182	1,405	**1,684**
Cash	2,353	1,820	2,147	1,617	**1,643**

In addition the Board monitors order levels and employee numbers as well as performance against budget.

Financial risk management
The Group's operations expose it to a number of risks that include the effect of changes in interest rates, credit, foreign currency exchange rates and liquidity. The Group does not trade in financial instruments. Further details in relation to these risks are shown in note 22.

Interest rate risk
The Group currently finances its activities through retained cash and equity finance. The Group monitors its exposure to interest rate risk when investing its cash resources.

Credit risk
The Group has a large customer base of approximately 2,000 customers (2011: approximately 1,800) and is not dependent on a small number of customers. Accordingly the Group does not believe it is exposed to significant credit risk. In addition it only places money with banks with strong credit ratings.

Exchange risk
The Company is exposed to translation and transaction foreign exchange risk. The Group's foreign operations primarily trade in their own currencies reducing the transaction risk. As a result the main foreign exchange transactional exposure arises when repatriating profits. The Group only seeks to remit cash when required in the UK and it usually has some flexibility on timing of such appropriations to minimise any exchange losses. To a degree, the Group relies on a partial natural hedge of Euro, Australian Dollar and US Dollar to cover the translation exposures.

Liquidity risk
The Group maintains positive cash resources and has sufficient available funds for its operations and planned expansion of its existing activities.

Principal risks and uncertainties

There are a number of risks and uncertainties which could have an impact on the Group's long-term performance and cause actual results to differ materially from expected and historical results. The Directors seek to identify material risks and put in place policies and procedures to mitigate any exposure. The table of risks that follows gives details of the principal risks and the approach being taken to manage them.

Risk	Potential adverse impact	How we mitigate the risk
Economic risk	The recruitment industry has a reputation for being vulnerable to the cyclical nature of the economy.	The Company operates globally and so is not reliant on one economy. It enjoys a high percentage of recurring revenues. In a downturn there may be a reduction in new permanent hires which may be replaced by temporary hires. The Group's suite of products now supports more aspects of the third party recruitment market through its acquisition of Voyager.
Business continuity risks associated with operational failure of hosting facilities and data security	A failure of systems or failure of operational facilities leading to loss of customer confidence in the Group being able to deliver their requirements. Loss or corruption of data held on behalf of customers which could have a detrimental effect on their confidence in data security processes and could cause financial loss.	Data backups occur daily and the necessary tests carried out on a regular basis to ensure data can be restored. Virtualisation introduced in the year using storage area networks (SANs).
Attrition of customer base	Failure to attract new customers or the loss of existing customers could have a detrimental effect on the Group's ability to generate revenues.	The Group continues to invest in product development to ensure that it remains competitive in the market. It actively manages its existing customer relationships.
Competitor activity	The market for recruitment software is extremely fragmented with a large number of small suppliers operating in all of the Group's geographical markets. Very few of these suppliers have the necessary financial, technical and marketing resources to be able to develop their competitive position. However, the competition may intensify through consolidation or new entrants to the market. Some competitors offer a broader product range enabling them to compete across the whole of the sector.	Management works to build strong customer relationships and uses account management to keep in touch with clients. The Group continues to invest in its product development and 2011 saw the launch of Voyager's Infinity product which is based on Microsoft .Net technology. It continues to innovate and provide solutions to client needs.
Employee retention	Our capability to meet the demands of the markets in which the Group operates and compete effectively with other software suppliers is dependent on the skills, experience and performance of our people. Failure to attract or retain high calibre employees could seriously impede future growth and present performance.	To retain staff the Group operates competitive remuneration packages and an appropriate culture in which staff work.
New product risk	The introduction of new products may contain significant bugs that make them unusable. This could damage the Group's reputation and result in loss of new orders and therefore reduce revenue growth. It could also result in claims against the Company.	Products are tested pre launch and launch strategies developed to minimise risks.
Acquisition risk	The Group made its first acquisition in 2011 and is likely to make further acquisitions in the future. This creates the potential risk that acquisitions may not perform or contain hidden risks or liabilities.	For all acquisitions and in advance of completion, management undertakes due diligence and prepares detailed integration plans including risk identification. These papers are reviewed and approved by the Board prior to any commitment being entered into.

Directors' Report continued

Directors

The following Directors have held office since 1 January 2012 other than where stated:
M D Love – Non-Executive Chairman
J S Starr
R Howard
A D James
J P Pomeroy
G R Fearnley – Non-Executive Director
A Milne

The interests of the Directors (including family interests) in the share capital of the Company are listed on page 19.

Giles Fearnley and Julie Pomeroy are proposed for re-election at the forthcoming AGM. Julie Pomeroy has a service contract with a one year notice period.

Principal shareholders

As at 19 April 2013 the Directors have been notified of the following shareholdings in excess of 3% of the Company's issued share capital:

	Ordinary shares of 5 pence each	Percentage
J S Starr	3,554,433	19.52%
R Howard	3,300,000	18.13%
J McLaughlin	2,572,122	14.13%
Herald Investment Management	1,767,444	9.71%
G Fearnley	993,435	5.46%
Unicorn Asset Management	900,043	4.94%
CFS Independent	870,889	4.78%
R Howells	650,000	3.57%

Creditor payment policy

The Group agrees payment terms with individual suppliers which vary according to the commercial relationship and the terms of the agreement reached. Payments are made to suppliers in accordance with the terms agreed. The number of supplier days represented by trade payables at 31 December 2012 was 24 days (31 December 2011: 16 days).

Directors' and Officers' insurance

The Group maintains insurance cover for all Directors and Officers of Group companies against liabilities which may be incurred by them while acting as Directors and Officers.

Annual General Meeting

The Company's Annual General Meeting will be held at its offices located at 50–52 Paul Street London, EC2A 4LB on 5 June 2013 at 10:30 am. The Notice convening the Annual General Meeting and an explanation of the business to be put to the meeting is contained in the separate document to shareholders which accompanies this report.

Auditors

Grant Thornton UK LLP was appointed as auditor for the year ended 31 December 2012 and a resolution proposing their re-appointment as auditors to the Company will be put to the forthcoming Annual General Meeting.

Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

> there is no relevant audit information of which the Company's auditors are unaware; and
> the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

J P Pomeroy
Company Secretary
23 April 2013

Corporate Governance Report
For the year ended 31 December 2012

Corporate governance
The Board supports the principles of good governance. In fulfilling their responsibilities, the Directors believe that they govern the Group in the best interests of the shareholders, whilst having due regard to the interests of other stakeholders in the Group including, in particular, customers, employees and suppliers.

The workings of the Board and its committees
The Board
The Board comprises a Non-Executive Chairman, one Independent Non-Executive Director and five Executive Directors. All Directors are obliged to submit themselves for re-election at least every three years. The Chairman and Non-Executive Director are considered to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. Giles Fearnley is the current Senior Independent Director and his shareholding of approximately 6% is not considered by the Board to change his independence. To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information. They are also able to take independent professional advice as appropriate.

The Board meets at least four times each year and has adopted a formal schedule of matters specifically reserved for decision by it, thus ensuring that it exercises control over appropriate strategic, financial, operational and compliance issues. At these meetings the Board reviews trading performance, ensures adequate financing, sets and monitors strategy, examines investment and acquisition opportunities and discusses reports to shareholders. The following Committees have been established to deal with specific aspects of the Group's affairs.

Audit committee
In 2012 the Audit committee comprised the Chairman and Non-Executive Director and met twice during the year.

The Finance Director, Group Chief Executive Officer and external Auditors attend by invitation. The Audit committee makes recommendations to the Board on issues surrounding the appointment, resignation or removal of Auditors and their remuneration. It discusses and agrees the scope of the audit with the external Auditors before the audit.

The Audit committee reviews external audit activities, monitors compliance with statutory requirements for financial reporting and reviews the half-year and annual accounts before they are presented to the Board for approval. It is also required to review the effectiveness of the Group's internal control systems, to review the Group's statement on internal control systems prior to endorsement by the Board and to consider, from time to time, the need for a risk assessment of the Group's internal control systems.

Remuneration committee
In 2012 the Remuneration committee comprised the Chairman, the Non-Executive Director and, by invitation, the Group Managing Director and Company Secretary. It is responsible for recommending to the Board the contract terms, remuneration and other benefits for Executive Directors, including performance-related bonus scheme and participation in the Group's long-term share option schemes.

Internal controls
The Board has overall responsibility for the Group's system of internal controls. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement. In order to discharge that responsibility in a manner which ensures compliance with laws and regulations and promotes effective and efficient operations, the Directors have established an organisation structure with clear operating procedures, lines of responsibility and delegated authority. There is an established framework of internal controls set out and approved by the Executive Management. The more important elements of this framework are as follows:

Management structure
The Board has overall responsibility for the Group and each Executive Director has been given responsibility for specific aspects of the Group's affairs.

Corporate accounting and procedures
Responsibility levels are communicated throughout the Group as part of the corporate communication procedure. Accounting, delegation of authority and authorisation levels, segregation of duties and other control procedures, together with the general ethos of the Group are included in these communications, and standardised accounting policies are in place reflecting this policy.

Quality and integrity of personnel
The integrity and competence of personnel is ensured through high recruitment standards and subsequent training courses. Quality personnel are seen as an essential part of the control environment and the ethical standards expected are communicated through senior members of staff.

Budgetary process
Each year the Board approves the annual budget, which includes an assessment of key assumptions underlying it. Performance is monitored and relevant action taken throughout the year by monthly reporting to the Board of updated forecasts together with information on key risk areas.

Internal monitoring

The Audit committee considers and determines relevant action in respect of any control issues raised by the Auditors. Given the size of the Group and the close day to day control exercised by the Executive Directors and senior management, no formal financial internal audit department is considered necessary. The Operations Director is responsible for maintaining registrations and quality related certifications and defining and agreeing the procedures, standards and practices to be followed in all non financial aspects of the Group's business.

The Directors have reviewed the effectiveness of the system of internal controls in operation during the year through the compliance monitoring process set out above and by reports from senior managers concerning the operations for which they are responsible. It must be recognised that such a system can provide only reasonable and not absolute assurance and, in that context, the review revealed nothing, which in the opinion of the Directors, indicates that the system was inappropriate or unsatisfactory.

Relations with shareholders

The Company seeks to maintain good communications with shareholders. The Executive Directors make presentations to institutional shareholders covering the interim and full year results. The Group despatches the notice of Annual General Meetings ('AGM'), with an explanatory circular describing items of special business, at least 21 working days before the meeting. All shareholders have the opportunity formally or informally to put questions to the Company's AGM and the Chairman typically makes a statement on current trading conditions at that meeting. The Chairman of the Audit and Remuneration committees attends the AGM and will answer questions that may be relevant to the remit of those committees. At each AGM the Chairman advises shareholders of the proxy voting details on each of the resolutions, which are dealt with on a show of hands.

Auditors

A resolution authorising the Directors to set the remuneration of the auditor will be put to shareholders at the forthcoming Annual General Meeting.

Report to the Shareholders on Directors' Remuneration

For the year ended 31 December 2012

Remuneration policy

The objective of the Group's remuneration policy is to attract, motivate, and retain high quality individuals who will contribute significantly to shareholder value. The Remuneration committee decides on the remuneration of the Directors and other senior management, which comprises a basic salary, benefits, bonus scheme, share options and longer term incentive plan.

Service contracts

The Board's policy is that service contracts of Executive Directors should provide for termination by the Group on one year's notice. The service contracts of each of the current Executive Directors provide for such a period of notice.

The Independent Non-Executive Directors have letters of appointment providing fixed three-year service periods, which may be terminated by giving six months notice.

Non-Executive Directors' remuneration

The fees for the Chairman and Independent Non-Executive Directors are determined by the Board. The Chairman and Non-Executive Directors are not involved in any discussions or decisions about their own remuneration.

The Chairman and Independent Non-Executive Directors do not receive bonuses or pension contributions and are not entitled to participate in any of the Group's share schemes. They are entitled to be reimbursed the reasonable expenses incurred by them in carrying out their duties as Directors of the Company.

Executive Directors' remuneration

The remuneration package of the Executive Directors includes the following elements:

Basic salary

Salaries are normally reviewed annually taking into account inflation and salaries paid to directors of comparable companies. Pay reviews also take into account Group and personal performance. The Board as a whole decides the remuneration of the Non-Executives.

Performance related pay scheme

There are two performance related pay schemes for Executive Directors. The first is an annual bonus scheme which is based upon the achievement of certain profit and commercial targets for the Group as appropriate. A bonus of £81,000 was payable to the Executive Directors in respect of 2012 (2011: £90,000).

The second scheme was introduced in 2011 and is a long-term incentive plan linked to growth in earnings per share over a three year period. Executive Directors may be granted "phantom share options" at the ruling mid market price at the time of the grant. The awards are subject to meeting challenging growth targets and will be cash settled. The Remuneration committee can also choose, when making the award, to grant share options in place of phantom options with the same growth targets. It is expected that annual awards will be made under the scheme. The value of the award is calculated at each reporting period using a Black-Scholes model (see note 20 for further details). The awards made in the period are included below:

Directors' remuneration (audited)

Details of the remuneration of the Directors for the financial year are set out below:

	Salary & Fees £'000	Bonus £'000	Pension Payments* £'000	Benefits** £'000	**2012 Total £'000**	2011 Total £'000
Executive Directors						
J S Starr	112	20	1	6	**139**	142
R Howard	81	15	1	4	**101**	129
A D James	80	15	1	4	**100**	112
J P Pomeroy	81	16	–	4	**101**	91
A Milne	67	15	1	4	**87**	83
Non-Executive Directors						
M D Love	33	–	–	–	**33**	33
G Fearnley	12	–	–	–	**12**	12
	466	81	4	22	**573**	602

* Includes cash payments in lieu of employer contributions.
** 5% of salary set aside for future benefits.

LTIP award (not audited) – phantom options

	Number of phantom options granted in year	Total value of all phantom option LTIP awards at 31 December 2012 £'000	Total value of all phantom option LTIP awards at 31 December 2011 £'000
J S Starr	153,425	34	9
R Howard	139,041	31	8
A D James	–	18	7
J P Pomeroy	–	16	6
A Milne	92,466	20	6
	384,932	119	36

LTIP award (not audited) – share options

	Number of options granted under LTIP scheme in year	Total number of options granted under LTIP scheme at 31 December 2012	Total number of options granted under LTIP scheme at 31 December 2011
A D James	109,589	109,589	–
J P Pomeroy	111,233	111,233	–
	220,822	220,822	–

These options were granted at 73p and carry the same performance conditions as the LTIP phantom option awards.

Directors' interests

The interests of the Directors (including family interests) in the share capital of the Company at the year end are set out below.

	Ordinary shares of 5 pence each	
	At 31 December 2012	At 31 December 2011
J S Starr	3,554,443	3,554,443
R Howard	3,524,433	3,524,433
A D James	121,494	121,494
M D Love	272,137	127,137
G R Fearnley	993,435	993,435
A Milne	59,109	72,189
J P Pomeroy	13,888	13,888

In addition the following Directors had total share options including the options granted under the LTIP scheme above.

	Options over ordinary shares of 5 pence each	
	At 31 December 2012	At 31 December 2011
A D James	109,589	–
J P Pomeroy	137,027	25,794
	246,616	25,794

Independent Auditor's Report to the Members

For the year ended 31 December 2012

Independent auditor's report to the members of Dillistone Group Plc

We have audited the financial statements of Dillistone Group Plc for the year ended 31 December 2012 which comprise the Group statement of comprehensive income, the Group and parent company statements of changes in equity, the Group and parent company statement of financial position, the Group and parent company statements of cash flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, set out on page 14, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

> the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
> the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
> the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
> the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

> adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
> the parent company financial statements are not in agreement with the accounting records and returns; or
> certain disclosures of Directors' remuneration specified by law are not made; or
> we have not received all the information and explanations we require for our audit.

Paul Etherington BSc FCA CF
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

23 April 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	Before exceptional items 2012 £'000	Exceptional items 2012* £'000	2012 £'000	Before exceptional items 2011 £'000	Exceptional items 2011* £'000	2011 £'000
Revenue	2	7,052	–	7,052	5,448	–	5,448
Cost of sales		(808)	(56)	(864)	(441)	–	(441)
Gross profit		6,244	(56)	6,188	5,007	–	5,007
Administrative expenses		(4,573)	(102)	(4,675)	(3,627)	(172)	(3,799)
Results from operating activities	5	1,671	(158)	1,513	1,380	(172)	1,208
Financial income	7	13	(13)	–	25	–	25
Profit before tax		1,684	(171)	1,513	1,405	(172)	1,233
Tax expense	8	(373)	95	(278)	(321)	14	(307)
Profit for the year		1,311	(76)	1,235	1,084	(158)	926
Other comprehensive income:							
Currency translation differences		(11)	–	(11)	(2)	–	(2)
Total comprehensive income for the year		1,300	(76)	1,224	1,082	(158)	924
Earnings per share – from continuing activities							
Basic**	9	7.20p		6.79p	6.26p		5.34p
Diluted**	9	7.18p		6.76p	6.23p		5.32p

*See accounts note 4.
**The comparative earnings per share have been adjusted to reflect the effect of the 2 for 1 bonus issue.

The notes on pages 27 to 48 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	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 year ended 31 December 2011	–	–	–	926	–	–	926
Other comprehensive income							
Exchange differences on translation of overseas operations	–	–	–	–	–	(2)	(2)
Total comprehensive income	–	–	–	926	–	(2)	924
Transactions with owners							
Issue of share capital	60	421	365	–	–	–	846
Share option charge	–	–	–	–	12	–	12
Dividends paid	–	–	–	(609)	–	–	(609)
Capitalisation of reserves	567	–	–	(567)	–	–	–
Total transactions with owners	627	421	365	(1,176)	12	–	249
Balance at 31 December 2011	**910**	**451**	**365**	**1,934**	**24**	**163**	**3,847**
Comprehensive income							
Profit for the year ended 31 December 2012	–	–	–	1,235	–	–	1,235
Other comprehensive income							
Exchange differences on translation of overseas operations	–	–	–	–	–	(11)	(11)
Total comprehensive income	–	–	–	1,235	–	(11)	1,224
Transactions with owners							
Share option charges	–	–	–	2	44	–	46
Dividends paid	–	–	–	(643)	–	–	(643)
Total transactions with owners	–	–	–	(641)	44	–	(597)
Balance at 31 December 2012	**910**	**451**	**365**	**2,528**	**68**	**152**	**4,474**

The notes on pages 27 to 48 are an integral part of these consolidated financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2012

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Share option £'000	Total £'000
Balance at 31 December 2010	283	30	–	745	12	1,070
Comprehensive income						
Profit and total comprehensive income for the year ended 31 December 2011	–	–	–	1,406	–	1,406
Transactions with owners						
Issue of share capital	60	421	365	–	–	846
Share option charge	–	–	–	–	12	12
Dividends paid	–	–	–	(609)	–	(609)
Capitalisation of reserves	567	–	–	(567)	–	–
Total transactions with owners	627	421	365	1,176	12	249
Balance at 31 December 2011	910	451	365	975	24	2,725
Comprehensive income						
Profit and total comprehensive income for the year ended 31 December 2012	–	–	–	808	–	808
Transactions with owners						
Issue of share capital	–	–	–	–	–	–
Share option charge	–	–	–	2	44	46
Dividends paid	–	–	–	(643)	–	(643)
Total transactions with owners	–	–	–	(641)	44	(597)
Balance at 31 December 2012	**910**	**451**	**365**	**1,142**	**68**	**2,936**

The notes on pages 27 to 48 are an integral part of these consolidated financial statements.

Consolidated and Company Statement of Financial Position

As at 31 December 2012

		Group		Company	
	Notes	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Assets					
Non-current assets					
Goodwill	11	2,490	2,490	–	–
Intangible assets	12	3,048	2,710	–	–
Property plant and equipment	13	124	143	–	–
Investments	14	–	–	4,111	4,111
Trade and other receivables	16	–	23	–	–
		5,662	5,366	4,111	4,111
Current assets					
Inventories	15	62	11	–	–
Trade and other receivables	16	1,715	1,728	28	39
Cash and cash equivalents		1,643	1,617	11	13
		3,420	3,356	39	52
Total assets		9,082	8,722	4,150	4,163
Equity and liabilities					
Equity attributable to owners of the parent					
Share capital	18	910	910	910	910
Share premium		451	451	451	451
Merger reserve		365	365	365	365
Retained earnings		2,528	1,934	1,142	975
Share option reserve	20	68	24	68	24
Translation reserve		152	163	–	–
Total equity		4,474	3,847	2,936	2,725
Liabilities					
Non-current liabilities					
Trade and other payables	17	256	364	256	344
Deferred tax liability	8	592	565	–	–
Current liabilities					
Trade and other payables	17	3,609	3,795	958	1,094
Current tax payable		151	151	–	–
Total liabilities		4,608	4,875	1,214	1,438
Total liabilities and equity		9,082	8,722	4,150	4,163

The notes on pages 27 to 48 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 23 April 2013. They were signed on its behalf by

J S Starr
Director

Company Registration No. 4578125

Consolidated Cash Flow Statement

For the year ended 31 December 2012

	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Operating activities				
Profit from operating activities	1,513		1,208	
Less taxation paid	(250)		(171)	
Adjustment for:				
Depreciation and amortisation	553		309	
Share option expense	47		12	
Foreign exchange adjustments arising from operations	9		17	
Operating cash flows before movement in working capital	1,872		1,375	
Increase in receivables	(4)		(214)	
(Increase)/decrease in inventories	(51)		44	
(Decrease)/increase in payables	(149)		366	
Net cash generated from operating activities		1,668		1,571
Investing activities				
Interest received	13		25	
Purchases of property plant and equipment	(69)		(81)	
Investment in development costs	(803)		(580)	
Acquisition of subsidiaries	(98)		(1,292)	
Net cash used in investing activities		(957)		(1,928)
Financing activities				
Proceeds from issue of share capital	–		457	
Dividends paid	(643)		(609)	
Net cash used by financing activities		(643)		(152)
Net increase/(decrease) in cash and cash equivalents		68		(509)
Cash and cash equivalents at beginning of year		1,617		2,147
Effect of foreign exchange rate changes		(42)		(21)
Cash and cash equivalents at end of year		1,643		1,617

The notes on pages 27 to 48 are an integral part of these consolidated financial statements.

Company Cash Flow Statement

As at 31 December 2012

	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Operating activities				
Profit from operating activities	808		1,400	
Less taxation paid	–		–	
Adjustment for share option expense	46		12	
Operating cash flows before movements in working capital	854		1,412	
Decrease/(increase) in receivables	11		(1)	
(Decrease)/increase in payables	(126)		243	
Net cash generated from operating activities		739		1,654
Investing activities				
Investment in acquisitions	(98)		(1,500)	
Net cash used in investing activities		(98)		(1,500)
Financing activities				
Dividends paid	(643)		(609)	
Placing monies raised	–		457	
Net cash used in financing activities		(643)		(152)
Net (decrease)/increase in cash and cash equivalents		(2)		2
Cash and cash equivalents at beginning of year		13		11
Cash and cash equivalents at end of year		11		13

The notes on pages 27 to 48 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the year ended 31 December 2012

Dillistone Group Plc (the "Company") is a company incorporated in England and Wales. The financial statements are presented in thousand Pounds Sterling.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its Group.

Both the Group financial statements and the Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. In publishing the Company financial statements here together with the Group financial statements, the Company has taken advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes in these financial statements.

1. Accounting policies

1.1 Basis of accounting

The consolidated financial statements have been prepared using the significant accounting policies and measurement bases summarised below.

Use of accounting estimates and judgements

Many of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimation is contained in the accounting policies and/or the notes to the financial statements and the key areas are summarised below.

Customers' practical acceptance of licence software

As detailed in note 1.4, perpetual licence fee revenues are recognised on practical acceptance of the software. The Group uses the "live" date as the basis of determining the timing of customer practical acceptance, thereby reducing the judgement required to ascertain the timing of licence revenue recognition.

Capitalisation of internal development expenditure

Management exercises judgement in establishing both the technical feasibility of completing an intangible asset which can be used internally or sold and the degree of certainty that a market exists for the asset, or its output, for the generation of future economic benefits. In addition amortisation rates are based on estimates of the useful economic lives and residual values of the assets involved. The assessment of these useful economic lives is made by projecting the economic lifecycle of the asset which is subject to alteration as a result of product development and innovation. Amortisation rates are changed where economic lives are re-assessed and technically obsolete items written off where necessary.

Valuation of assets and liabilities

Management has made a number of assumptions with regards to the models used to value assets and liabilities at the statement of financial position date. Valuation techniques commonly used by market practitioners are applied. In respect of the provision for bad and doubtful receivables and credit note provisions, management have made relevant judgements based on discussions with the account managers as regards the recoverability of trade receivables.

Valuation of share-based payments

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Group has made estimates as to the volatility of its own shares, the probable life of options granted, leaver rates and the time of exercise of those options. The model used by the Group is a Black-Scholes valuation model. Further details are shown in note 20.

Impairment of goodwill and other intangible assets

There are a number of assumptions management have considered in performing impairment reviews of goodwill and intangible assets which include an estimate of the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. See note 11.

Business combinations:

On initial recognition, the assets and liabilities of the acquired business are included in the consolidated statement of financial position at their fair values. In measuring fair value, management uses estimates about future cash flows and discount rates. However, actual results may vary. Details of acquired assets and liabilities are given in note 21.

Notes to the Financial Statements continued

For the year ended 31 December 2012

1. Accounting policies continued

Valuation of separately identifiable intangible assets

As detailed in note 1.6 separately identifiable intangible assets are identified and amortised over a defined period. The Directors use an acknowledged approach but this is reliant upon certain judgements which they determine are reasonable by reference to companies in similar industries.

Contingent consideration:

Where contingent consideration is payable in cash and discounting would have a material effect, management uses an appropriate discount rate. As the contingent consideration is dependent upon future trading performance, an estimate of the present value of the likely consideration payable is made.

The accounting policies set out below have, unless otherwise stated, been applied consistently by the Group to all periods presented in these financial statements.

1.2 Going concern

The Group's business activities and financial position, together with the factors likely to affect its future development, performance and position are set out in the Business Review and Financial Review on pages 6 to 9. In addition, note 22 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources together with well established relationships with a number of customers and suppliers across different geographic areas.

As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.3 Basis of consolidation

The Group financial statements consolidate those of Dillistone Group Plc and of its subsidiary undertakings at the statement of financial position date. Subsidiary undertakings are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from the activities, which is considered to represent control. The Group obtains and exercises control through voting rights. There are no associates or joint ventures to be considered.

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Acquisitions of subsidiaries are dealt with by the acquisition method.

1.4 Revenue

General

Revenue is the fair value of the total amount receivable by the Group for supplies of products and services which are provided in the normal course of business. VAT or similar local taxes and trade discounts are excluded.

Licensing excluding software as a service (SaaS)

The Group licenses software under licence agreements. Perpetual licence fee revenues are recognised on practical acceptance of the software, when all obligations have been substantially completed. This is when the customer has accepted the product, the risks and rewards of ownership have been transferred, it is probable that the economic benefits of the transaction will flow to the Group, all costs and revenue in relation to the transaction can reliably be measured and the Group has no further managerial involvement over the goods to the degree usually associated with ownership. To the extent that payments have been received in advance for licences, where practical acceptance has not yet been reached, these amounts are recognised as deferred income.

Professional services

The Group provides professional services which include installation, consulting, data translation and training. Such revenues are recognised as the services are completed or where they are part of the sale and installation of software, they are typically recognised when the obligations under the contract are complete. To the extent that payments have been received in advance for such services these amounts are recognised as deferred income.

1. Accounting policies continued

Product support, hosting and SaaS

Revenues from support, hosting or SaaS agreements are recognised over the period to which they relate but only after practical acceptance of the software, as defined above, have been received. As revenue is invoiced in advance for such services, the amount in advance is included in deferred revenue and released over the period to which the service relates.

1.5 Share-based payments

The Company operates two share-based payment schemes.

The first is an equity settled share-based compensation plan (share options) for remuneration of its employees. It can also be used in conjunction with a long-term incentive plan for executives.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share option awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (e.g. profitability or sales growth targets).

All equity-settled share-based compensation is ultimately recognised as an expense in the profit or loss with a corresponding credit to share-based payment reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of shares options expected to vest. Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expenses recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

Upon exercise of share options, the proceeds received, net of any directly attributable transaction costs, up to the nominal value of the shares issued are reallocated to share capital with any excess being recorded as additional share premium.

The second scheme is a cash settled share-based compensation plan for Directors. Under this scheme, Directors are granted "phantom" options which have performance conditions related to the growth in earnings per share of the Group. The options will automatically be exercised following the publication of the annual report of the Company, three years after the grant. These phantom options are re-valued at each half year end using a Black-Scholes model and the necessary movement in the liability is recognised through profit and loss. The liability is included in non-current liabilities.

1.6 Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values. Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

Where contingent consideration relates to the results spread over different accounting periods, the fair value of such consideration is recalculated at each year end and any adjustment is recognised in profit or loss immediately.

1.7 Exceptional charges

Charges which are both material and considered by the Directors to be unusual in either nature or size are separately disclosed on the face of the Statement of Comprehensive Income. These include acquisition costs and related intangible amortisation.

Notes to the Financial Statements continued

For the year ended 31 December 2012

1. Accounting policies continued

1.8 Impairment testing of goodwill, other intangible assets and property, plant and equipment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill. Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors. Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

1.9 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

1.10 Intangible assets

Internal development costs

Costs incurred on product development relating to the design and development of new or enhanced products are capitalised as intangible assets when it is reasonably certain that the development will provide economic benefits, considering its commercial and technological feasibility and the resources available for the completion and marketing of the development, and where the costs can be measured reliably. The expenditures capitalised are the direct labour and subcontracted costs, which are managed and controlled centrally. Product development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised product development expenditure for versions of the Group's FileFinder product (up to version 9) and for expenditure on subsequent enhancements and releases to FileFinder 10 is amortised over its useful life of three years, commencing a year following the costs being incurred.

Capitalised product development expenditure for the Company's FileFinder version 10 and Voyager Infinity platform is amortised over its useful life of 10 years or to 30 June 2021, whichever is the shorter period, commencing in the year in which the product is first brought into use.

Capitalised product development expenditure is subject to regular impairment reviews and is stated at cost less any accumulated impairment losses and amortisation. Any impairment taken during the year is shown under administrative expenses on the Consolidated Statement of Comprehensive Income.

Acquired as part of a business combination

In accordance with IFRS 3 Business Combinations, an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group. Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the Group of assets is recognised as a single asset separately from goodwill where the individual fair values of the assets in the Group are not reliably measurable. Where the individual fair values of the complementary assets are reliably measurable, the Group recognises them as a single asset provided the individual assets have similar useful lives.

1. Accounting policies continued

Subsequent to initial recognition, intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided to write off the cost of each intangible asset over its useful economic life as follows:

	Estimated life
Intangible assets:	
Brand	15 years
Developed technology	11.25 years
Contractual customer relationships	1.25 years
Non contractual customer relationships	10.25 years

1.11 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation on these assets is provided at rates estimated to write off the cost, less estimated residual value, of each asset over its expected useful life as follows:

Leasehold land and buildings	the lower of 5 years or the remaining lease period
Office and computer equipment	33%–50% straight line
Fixtures, fittings & equipment	25% straight line

1.12 Financial assets

The Group classifies its financial assets under the definitions provided in International Accounting Standard 39 (IAS 39) Financial Instruments: Recognition and measurement, depending on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Management consider that the Group's financial assets fall under the 'loans and receivables' category.

Loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date, which are classified as non-current assets. The Group's loans and receivables comprise trade receivables intercompany trading balances (in relation to Company accounts), and cash and cash equivalents.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. Receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty may default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups. The impairment loss estimate is then based on recent historical counterparty default rates and current economic conditions.

De-recognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each statement of financial position date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

1.13 Financial liabilities

The Group classifies its financial liabilities under the definitions provided in IAS 39, either as financial liabilities at fair value through profit or loss, or financial liabilities measured at amortised cost. Management consider that the Group's financial liabilities fall under the 'financial liabilities measured at amortised cost' category. The Group's 'financial liabilities measured at amortised cost' comprise trade payables, intercompany trading balances (in relation to Company accounts), and accruals.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.14 Investments

Investments in subsidiary companies are included at cost in the accounts of the Company less any amount written off in respect of any impairment in value.

Notes to the Financial Statements continued

For the year ended 31 December 2012

1. Accounting policies continued

1.15 Leases

Finance leases are recognised as being those that transfer substantially all the risks and rewards of ownership. Assets held under finance leases are capitalised and the outstanding future lease obligations are shown in payables at the present value of the lease payments. They are depreciated over the term of the lease or their useful economic lives, whichever is the shorter. The interest element (finance charge) of lease payments is charged to profit or loss over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to profit or loss in the period in which they are incurred. The Group does not act as a lessor.

1.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all directly attributable expenses. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

1.17 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less and which are subject to an insignificant risk of changes in value.

1.18 Equity

Equity comprises the following:

> "Share capital" represents the nominal value of equity shares.
> "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
> "Merger reserve" is used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under the Companies Act 2006.
> "Share option reserve" represents equity-settled share-based employee and non-employee remuneration until such share options are exercised.
> "Retained earnings" represents retained profits and losses.
> "Translation reserve" represents translation differences arising on the consolidation of investments in overseas subsidiaries.

1.19 Foreign currency translation

The consolidated financial statements are presented in Sterling, which is also the functional currency of the parent company.

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the statement of financial position date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss.

On consolidation, the assets and liabilities of the Group's overseas subsidiaries are translated from their functional currency to Sterling at exchange rates prevailing on the statement of financial position date. Income and expenses have been translated from their functional currency into Sterling at the average rate for each month over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the currency translation reserve in equity.

1.20 Income taxes

Current income tax assets and liabilities comprise those obligations to fiscal authorities in the countries in which the Group carries out its operations. They are calculated according to the tax rates and tax laws applicable to the fiscal period and the country to which they relate. Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amount of assets and liabilities in the consolidated financial statements with their respective tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

1. Accounting policies continued

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the statement of financial position date. Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

1.21 Defined contribution pension scheme

The pension costs charged in the financial statements represent the contributions payable by the Group during the year.

1.22 New accounting standards

(i) New and amended standards adopted by the Group:

The following new standards and amendments to standards are mandatory for the first time for the Group for financial year beginning 1 January 2012. Except as noted, the implementation of these standards is not expected to have a material effect on the Group.

Standard	Effective date	Impact on initial application
IFRS 7 – Amendment – Transfer of Financial Asset	1 July 2011	No impact
IFRS 1 – Amendment – Severe Hyperinflation and Removal of Fixed Dates	1 July 2011	No impact

No other IFRS issued and adopted but not yet effective are expected to have an impact on the Group's financial statements.

(ii) Standards, amendments and interpretations, which are effective for reporting periods beginning after the date of these financial statements which have not been adopted early:

Standard	Description	Effective date
IAS 1	Presentation of Items of Other Comprehensive Income	1 July 2012
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 11	Joint Arrangements	1 January 2014
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014
IFRS 13	Fair Value Measurement	1 January 2013
IAS 27	Separate Financial Statements	1 January 2014
IAS 28	Investments in Associates and Joint Ventures	1 January 2014
IAS 19	Employee Benefits	1 January 2013
IFRS 7	Offsetting Financial Assets and Financial Liabilities	1 January 2013
Improvements to IFRS	(2009–2011 Cycle)	1 January 2013
IFRS 10, 11 and 12	Transition Guidance	1 January 2013
IAS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS	Financial Instruments	1 January 2015

2. Segment reporting

The Board principally monitors the Group's operations in terms of results of the two Divisions, Dillistone Systems and Voyager Software. In respect of 2011, Voyager Software numbers are included from 21 September 2011. Segment results reflect management charges made or received. Intercompany balances are excluded from segment assets and liabilities.

Notes to the Financial Statements continued

For the year ended 31 December 2012

2. Segment reporting continued

Divisional segments

For the year ended 31 December 2012

	Dillistone £'000	Voyager £'000	Central £'000	Total £'000
Recurring income	3,144	1,385	–	4,529
Non-recurring income	1,522	618	–	2,140
Third party revenues	–	383	–	383
Segment revenue	4,666	2,386	–	7,052
Segment EBITDA	1,912	484	(398)	1,998
Depreciation and amortisation expense	(281)	(46)	–	(327)
Segment result	1,631	438	(398)	1,671
Exceptional amortisation	–	–	(227)	(227)
Exceptional charges	–	(84)	153	69
Operating profit	1,631	354	(472)	1,513
Financial income	12	1	(13)	–
Income tax expense				(278)
Profit after tax				1,235
Additions of non-current assets	465	407		872
Segment assets	3,181	349	14	3,544
Intangibles and goodwill	1,667	488	3,383	5,538
Total	4,848	837	3,397	9,082
Segment liabilities	2,961	749	898	4,608

For the year ended 31 December 2011

	Dillistone £'000	Voyager £'000	Central £'000	Total £'000
Recurring income	2,874	374		3,248
Non-recurring income	1,885	237		2,122
Third party revenues	–	78		78
Segment revenue	4,759	689	–	5,448
Segment EBITDA (before exceptional items)	1,889	168	(424)	1,633
Depreciation and amortisation expense	(250)	(3)	–	(253)
Segment result (before exceptional items)	1,639	165	(424)	1,380
Exceptional amortisation			(57)	(57)
Other exceptional charges			(115)	(115)
Operating profit	1,639	165	(596)	1,208
Financial income	25	–		25
Income tax expense				(307)
Profit after tax				926
Additions of non-current assets	560	101		661
Additions on acquisition	–	57		57
Segment assets	3,124	375		3,499
Intangibles and goodwill				5,200
Central assets				23
Total				8,722
Segment liabilities	3,078	986		4,064
Central liabilities				811
				4,875

2. Segment reporting continued

Products and services

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

Revenue

	2012 £'000	2011 £'000
Recurring income	4,529	3,248
Non-recurring income	2,140	2,122
Third party revenues	383	78
	7,052	5,448

Recurring income includes all support services, software as a service income (SaaS) and hosting income. Non-recurring income includes sales of new licences, and income derived from installing those 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.

3. Geographical analysis

The following table provide 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

	2012 £'000	2011 £'000
UKMEA	4,069	2,669
Europe	926	1,076
Americas	1,239	991
Asia-Pacific	818	712
	7,052	5,448

Non-current assets by geographical location:

	2012 £'000	2011 £'000
UKMEA	5,654	5,332
Europe	–	–
Americas	4	26
Asia-Pacific	4	8
	5,662	5,366

4. Exceptional items

	2012 £'000	2011 £'000
Estimated change in fair value of contingent consideration note 21	(153)	–
Unwinding of discount on contingent consideration	13	–
Payment in respect of onerous contract	56	–
Tax costs relating to options exercised pre acquisition of Woodcote	28	–
Amortisation of acquisition intangibles	227	57
Fees relating to the acquisition of Woodcote and its restructuring note 21	–	115
	171	172

Notes to the Financial Statements continued

For the year ended 31 December 2012

5. Results from operating activities

	2012 £'000	2011 £'000
Result from operating activities is stated after charging:		
Depreciation	88	66
Amortisation	465	243
Loss on foreign exchange transactions	3	9
Operating lease rentals – land and buildings	184	137
Money purchase pension contributions	50	31
Fees receivable by the Group auditors:		
Audit of financial statements	21	20
Other services:		
Audit of accounts of subsidiary of the Company	32	25
Other services relating to taxation	20	17
All other services*	–	–

*In 2011 fees of £30,000 were paid to Grant Thornton UK LLP prior to their appointment as auditors.

6. Employees

The average number of employees was:

	2012	2011
Operations	79	54
Management	6	6
Employee numbers	85	60

Their aggregate remuneration comprised:

	2012 £'000	2011 £'000
Wages and salaries	3,340	2,562
Social security costs	381	292
Pension costs	50	31
Share-based payments charged	130	48
	3,901	2,933

The aggregate remuneration includes salary cost and Directors' remuneration totalling £366,000 (2011: £410,000) that have been capitalised in intangible assets.

Key management of the Group are the Directors and, from acquisition, the Directors of Voyager Software. Remuneration of key management was as follows:

	2012 £'000	2011 £'000
Wages and salaries and benefits	735	661
Social security costs	83	72
Pension costs	8	7
Share-based payments charge including LTIP charge	107	40
	933	780

Details of Directors' emoluments, share options and pension entitlements are given in the Remuneration Report on pages 18 and 19.

7. Financial income

	2012 £'000	2011 £'000
Interest receivable	13	25
Unwinding of discount on contingent consideration	(13)	–
	–	25

8. Tax expense

	2012 £'000	2011 £'000
Current tax	251	234
Deferred tax	101	62
Deferred tax re acquisition intangibles	(74)	11
Income tax expense for the year	278	307
Factors affecting the tax charge for the year		
Profit before tax	1,513	1,233
UK rate of taxation	24.5%	26.5%
Profit before tax multiplied by the UK rate of taxation	371	327
Effects of:		
Overseas tax rates	67	29
Deferred tax asset not provided	16	–
Enhanced R&D relief	(142)	(70)
Disallowed expenses	31	63
Rate change impact on deferred tax	(50)	(13)
Prior year adjustments	(15)	(32)
Exchange rate	–	3
Tax expense	278	307

Deferred tax provided in the financial statements is as follows:

	Group			Company	
	2012 £'000	Movement £'000	2011 £'000	2012 £'000	2011 £'000
Accelerated intangible amortisation	394	95	299	–	–
Provisions	(8)	6	(14)	–	–
Acquisition intangibles	206	74	280	–	–
	592	27	565	–	–

The UK corporation tax rate in the year fell from 26% to 24% giving an effective rate for the year of 24.5%. The tax rate is expected to fall again to 23% in April 2013. Accordingly where deferred tax is provided in relation to the UK it is provided at this lower rate. 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. The Group has gross tax losses and temporary timing differences of £221,000 (2011: £155,000) for which not deferred tax asset has been recognised.

Notes to the Financial Statements continued

For the year ended 31 December 2012

9. Earnings per share

	2012 Pre exceptional £'000	2012 Post exceptional £'000	2011 Pre exceptional £'000	2011 Post exceptional £'000
Profit attributable to ordinary shareholders	1,311,000	1,235,000	1,084,000	926,000
Weighted average number of shares	18,201,294	18,201,294	17,328,365	17,328,365
Basic earnings per share	7.20 pence	6.79 pence	6.26 pence	5.34 pence
Weighted average number of shares after dilution	18,261,915	18,261,915	17,392,866	17,392,866
Fully diluted earnings per share	7.18 pence	6.76 pence	6.23 pence	5.32 pence

Reconciliation of basic to diluted average number of shares

	2012	2011
Weighted average number of shares (basic)	18,201,294	17,328,365
Effect of dilutive potential ordinary shares – employee share plans	60,621	64,501
Weighted average number of shares after dilution	18,261,915	17,392,866

10. Profit for the financial year

As permitted by s408 of the Companies Act 2006, the holding company's profit and loss account has not been included in these financial statements. The profit for the financial year for the holding company was £808,000 (2011: £1,406,000).

11. Goodwill

Group	Goodwill £'000
Cost	
At 1 January 2011	494
Additions	1,996
At 31 December 2011 and 2012	2,490
Carrying amount	
At 31 December 2012	2,490
At 31 December 2011	2,490

At the year end date an impairment test has been undertaken by comparing the carrying values of goodwill with the recoverable amount of the cash generating unit to which the goodwill has been allocated. The recoverable amount of the cash generating unit (CGU) is based on value-in-use calculations. These calculations use cash flow projections covering a three year period based on financial budgets and a calculation of the terminal value, for the period following these formal projections.

The key assumptions used for value-in-use calculations are those regarding growth rates, increases in costs and discount rates. The discount rate is reviewed annually to take into account the current market assessment of the time value of money and the risks specific to the cash-generating units and rates used by comparable companies. The pre tax discount rate used to calculate value-in-use is 12% (2011: 12%). Growth rates for forecasts take into account historic experience and current market trends. Costs are reviewed and increased for inflation and other costs pressures. The long-term growth rate used for the terminal value calculation is 2%. (2011: 2%) for all CGUs. The allocation of goodwill across the CGUs is as follows:

11. Goodwill continued

	Opening £'000	Addition £'000	Impairment £'000	Closing £'000
Dillistone UKMEA	290	–	–	290
Dillistone Europe	110	–	–	110
Dillistone Australia	40	–	–	40
Dillistone US	54	–	–	54
Voyager consolidated	1,996	–	–	1996
	2,490	–	–	2,490

Sensitivities

To reduce the headroom in the impairment calculation to £nil for the Voyager consolidation goodwill would require a reduction of terminal growth rate to 0% and an increase in the discount rate to 15%. No meaningful sensitivity for the Dillistone goodwill reduces the headroom to £nil.

12. Intangible assets

Group	Development costs £'000	Acquisition intangibles £'000	Total £'000
Cost			
At 1 January 2011	1,670	–	1,670
Additions	580	1,178	1,758
At 31 December 2011	2,250	1,178	3,428
Additions	803	–	803
At 31 December 2012	3,053	1,178	4,231
Amortisation			
At 1 January 2011	475	–	475
Charge for the year	186	57	243
At 31 December 2011	661	57	718
Charge for the year	238	227	465
At 31 December 2012	899	284	1,183
Carrying amount			
At 31 December 2012	2,154	894	3,048
At 31 December 2011	1,589	1,121	2,710

Acquisition intangibles can be summarised as follows:

	Brand £'000	Developed technology £'000	Contractual relationship £'000	Non contractual relationship £'000	Total £'000
Cost					
At 1 January 2012	191	298	137	495	1,121
Amortisation	(13)	(27)	(137)	(50)	(227)
At 31 December 2012	**178**	**271**	**–**	**445**	**894**

Notes to the Financial Statements continued

For the year ended 31 December 2012

13. Property, plant and equipment

Group	Land and buildings £'000	Office & computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
At 1 January 2011	163	329	28	520
Additions	–	81	–	81
Additions by acquisition	–	112	102	214
At 31 December 2011	163	522	130	815
Currency impact	–	(3)	–	(3)
Additions	3	66	–	69
Disposals	–	(40)	–	(40)
At 31 December 2012	166	545	130	841
Depreciation				
At 1 January 2011	143	279	27	449
Charge for the year	20	40	6	66
Depreciation on acquisition	–	100	57	157
At 31 December 2011	163	419	90	672
Currency impact	–	(3)	–	(3)
Charge for year	1	64	23	88
Eliminated on disposal	–	(40)	–	(40)
At 31 December 2012	164	440	113	717
Carrying Amount				
At 31 December 2012	2	105	17	124
At 31 December 2011	–	103	40	143

14. Non-current asset investments

Company	Unlisted investments £'000
Cost	
At 1 January 2012 and 31 December 2012	4,111

The Company has the following subsidiary undertakings:

Name	Principal activity	Holding of ordinary shares	Registered
Dillistone Systems Limited	Sale of computer software and related support services	100%	England & Wales
Dillistone Systems (Australia) Pty Limited	Sale of computer software and related support services	100% (indirect)	Australia
Dillistone Systems (US) Inc	Sale of computer software and related support services	100%	USA
Woodcote Software Limited	Dormant company	100%	England & Wales
Voyager Software Limited *	Sale of computer software and related support services	100%	England & Wales
Voyager Software (Australia) Pty Limited	Sale of computer software and related support services	100% (indirect)	Australia

* The ownership of Voyager Software was transferred from Woodcote Software Limited to Dillistone Group Plc on 30 December 2011.

15. Inventories

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Licences for resale	62	11	–	–

16. Trade and other receivables

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Trade and other receivables*	1,483	1,514	–	–
Group receivables	–	–	21	30
Other current assets	36	44	4	8
Prepayments and accrued income	196	193	3	1
	1,715	1,751	28	39

*Trade and other receivables includes £nil (2011: £23,000) receivable in more than one year which have been included in non-current assets.

The carrying value of trade receivables is considered a reasonable approximation of fair value. All of the receivables have been reviewed for indicators of impairment. The movement in the provision is shown below:

	2012 £'000	2011 £'000
At start of year	78	52
Movement in the year	5	26
At the year end	83	78

The ageing profile of trade receivables as at the year end is as follows:

	2012 £'000	2011 £'000
Current		
Past due date:	1,226	1,346
31 – 60 days overdue	51	71
More than 60 days overdue	206	97
Total	1,483	1,514

17. Trade and other payables

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Current liabilities				
Trade and other payables	430	476	27	10
Group payables	–	–	518	626
Deferred income	2,483	2,473	–	–
Accruals	696	846	413	458
	3,609	3,795	958	1,094
Non-current liabilities				
Contingent consideration	137	308	137	308
Cash settled share-based provision	119	36	119	36
Other provisions	–	20	–	–
	256	364	256	344

Notes to the Financial Statements continued

For the year ended 31 December 2012

18. Share capital

	2012 £'000	2011 £'000
Allotted, called up and fully paid		
Ordinary shares of 5 pence each	**910**	910

In June 2012 an employee exercised an option over 8,913 shares.

In June 2011 the Company carried out a 2 for 1 bonus issue of 11,330,882 bonus shares. In September 2011 the Company placed 694,445 shares at 72p to partially finance the acquisition of Woodcote Software Limited. It also issued 505,509 shares to the vendors of Woodcote as part of the consideration paid.

	2012	2011
Shares issued and fully paid		
Beginning of the year	**18,196,277**	5,665,441
Shares issued on exercise of options	**8,913**	–
Bonus issue	**–**	11,330,882
Shares issued on placing	**–**	694,445
Issued on acquisition of Woodcote	**–**	505,509
Shares issued and fully paid	**18,205,190**	18,196,277

19. Operating lease arrangements

The Group leases offices under non-cancellable operating lease agreements.

At 31 December 2012 the Group had future total commitments under non-cancellable operating leases as follows:

	2012 £'000	2011 £'000
Commitments payable:	**335**	479
Within one year	**167**	154
Between two and five years	**168**	325

20. Share options

Share-based payments

There are two share option schemes in operation: an Enterprise Management Incentive Scheme ("the EMI Scheme") which complies with the requirements of HMRC and a scheme which has not been approved by HMRC ("the Unapproved Scheme"). If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are normally forfeited if the employee leaves the Company before the options become available to exercise. Performance conditions are associated with the options granted on 29 May 2012.

During 2012 the Group made one grant of options. The fair values of the services received in exchange for share-based payments were calculated using a Black-Scholes pricing model.

The inputs into the model were as follows:

Date of grant	Number granted	Share price on issue date	Exercise price	Expected volatility	Vesting period	Leaver rate over vesting period	Risk free rate	Expected dividend yield
29 May 2012	220,822	73.00p	73.00p	55%	3.0 years	0%	0.44%	4.5%

20. Share options continued

There were two grants of options in 2011. The fair values of the services received in exchange for share-based payments were calculated using a Black-Scholes pricing model. The inputs into the model were as follows:

Date of grant	Number granted	Share price on issue date	Exercise price	Expected volatility	Vesting period	Leaver rate over vesting period	Risk free rate	Expected dividend yield
14 January 2011*	30,000	58.33p	58.33p	65%	3 years	0%	1.75%	4.5%
21 September 2011	420,794	77.00p	77.00p	65%	3.33 years	15%	0.79%	4.5%

*Adjusted for the 2 for 1 bonus issue where appropriate.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	2012		2011	
	Number of options*	WAEP*	Number of options*	WAEP*
Outstanding at beginning of year	552,446	74.01	101,652	55.27
Granted during year	220,822	73.00	450,794	75.76
Exercised during year	(8,913)	5.39	–	–
Forfeited during year	(21,000)	89.67	–	–
Outstanding at the end of the year	743,355	74.09	552,446	74.01
Exercisable at the year end	80,739	68.11	101,652	66.27

*Adjusted for the 2 for 1 bonus issue were appropriate.

No Directors exercised share options during the year. The Company's mid-market share price on 31 December 2012 was 74p.

The fair value of all options granted is shown as an employee expense with a corresponding increase in equity. The employee expense is recognised equally over the time from grant until vesting of the option. The employee expense for the year was £47,000 (2011: £12,000).

Share options remaining in the schemes are as follows:

Scheme type	Date of grant	Exercise from	Lapse date	Options remaining	Ex price (p)
EMI	03/05/2006	03/05/2009	02/05/2016	–	5.38
Unapproved	03/05/2006	03/05/2009	02/05/2016	26,739	5.38
EMI	14/09/2007	14/09/2010	13/09/2017	54,000	99.17
Unapproved	14/09/2007	14/09/2010	13/09/2017	–	99.17
Unapproved	14/01/2011	14/01/2014	13/01/2021	30,000	58.33
EMI	21/09/2011	21/09/2014	20/09/2021	390,794	77.00
Unapproved	21/09/2011	21/09/2014	20/09/2021	21,000	77.00
EMI	29/05/2012	29/05/2015	28/05/2022	220,822	73.00
				743,355	

The weighted average share price of the 8,913 shares exercised during 2012 (2011: nil) was 68.5p (2011: nil). The weighted average remaining contractual life of options at 31 December 2012 was 8.4 years (2011: 8.9 years).

Cash settled options

During 2011 the Board introduced a long-term incentive scheme for Directors. The scheme grants phantom options to the participants and these options are cash settled on the vesting date, which will be the date of the publication of the appropriate annual report. The amount payable will be the increase in share price between the date of grant and vesting multiplied by the number of phantom options granted multiplied by the performance factor. The performance factor is based on the percentage rise in the earnings per share over the period.

The fair values of the services received in exchange for cash-based option payments were calculated using a Black-Scholes pricing model at 31 December 2012.

Notes to the Financial Statements continued

For the year ended 31 December 2012

20. Share options continued

The inputs into the model were as follows:

Date of grant	Number granted*	Share price on issue date*	Exercise price *	Expected volatility	Remaining period to vesting	Leaver rate over vesting period	Risk free rate	Expected dividend yield
28 April 2011	645,750	66.67p	66.67p	60%	1.33 years	0%	0.3%	4.00%
29 May 2012	384,932	73p	73p	60%	2.33 years	0%	0.4%	4.00%

*Adjusted for the 2 for 1 bonus issue.

The expense charged for the year was £83,000 (2011: £36,000). The total liability carried forward was £119,000 (2011: £36,000) and is included in non-current liabilities.

Expected volatility takes into account historic volatility of the share price and its current trend.

21. Acquisitions

On 21 September 2011, the Group acquired the entire share capital of Woodcote Software Limited for an estimated consideration before fees of £2,487,000, which was satisfied as detailed below. This was part of the Group's strategy to broaden our offering to the recruitment sector.

Woodcote was a non-trading holding company. Voyager Software Limited (www.voyage.co.uk), which was a wholly owned subsidiary of Woodcote, sells a number of software products to its target market of recruitment agencies. The products are designed to facilitate the filling of temporary or permanent vacancies. Voyager Software (Australia) Pty Ltd., a wholly owned subsidiary of Voyager, markets a similar product range. Between them, Voyager and Voyager (Australia) have over 700 active unique clients and nearly 5,000 active licensed users. At 30 December 2011, Woodcote transferred the ownership of Voyager Software Limited to Dillistone Group Plc.

Equity consideration was agreed at £390,000 and satisfied by the issue of 505,509 ordinary shares in Dillistone Group. The total consideration of £2,487,000 net of cash acquired of £208,000 was £2,279,000 before fees.

As part of the acquisition, 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 this was paid in the year. In addition the vendors are entitled to contingent consideration as follows:

> £200,000 – provided that the revenue of the acquired companies exceeds £2,200,000 in the year ending 30 June 2012;
> 30% of the revenue of the acquired companies over £2,300,000 in the year ending 31 December 2012; and
> 30% of the revenue of the acquired companies over £2,300,000 in the year ending 31 December 2013.

In the 2012 accounts the amounts payable under the contingent consideration have been reduced by £153,000 based on the revenue for 2012 and on the budgeted revenue for 2013. These amounts have been discounted at 4.5%.

22. Financial instruments

The Group uses various financial instruments; these include cash and bank deposits and various items such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations.

The Group finance department maintains liquidity, manages relations with the Group's bankers, identifies and manages foreign exchange risk and controls Group treasury operations. Treasury dealings such as investments and foreign exchange are conducted only to support underlying business transactions. Consequently, the Group does not undertake speculative foreign exchange dealings for which there is no underlying exposure.

The Group's policies for management of the financial risks to which it is exposed are outlined below.

(i) Interest rate risk

The Group has a limited exposure to interest rate volatility. The Group has no debt and the only interest rate exposure is therefore on the Group's bank deposits. The Group's policy is to maintain capital preservation and flexibility rather than to optimise interest rates on bank deposits held. Cash deposits in Sterling and foreign currencies are made at prevailing interest rates. Where rates are fixed, the fixed interest period is generally no more than one month.

At the year end, the Group had positive cash balances totalling £1,643,000 (2011: £1,617,000). Had interest rates been 1% higher during the financial year, the impact on profit would have been an increase in profit for the year of £20,000 (2011: increase of £21,000).

22. Financial instruments continued

(ii) Credit risk

The Group's principal financial assets are cash and cash equivalents and trade and other receivables.

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and monies on deposit with financial institutions.

Historically, the cash collection profile has been very good. Debt aging and collections are monitored on a regular basis and for new customers deposits are usually required. Some of the unimpaired trade receivables are past due as at the reporting date. Information on financial assets past due but not impaired are included in note 16.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Group has no significant concentration of credit risk.

The Group's maximum exposure to credit risk at the reporting date is represented by the carrying value of financial assets, as follows:

	Group		Company	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Trade and other receivables (current assets)	**1,483**	1,491	**21**	30
Trade and other receivables (non-current assets)	**–**	23		
Cash and cash equivalents	**1,643**	1,617	**11**	13
Total	**3,126**	3,131	**32**	43

(iii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due.

As at 31 December 2012, the Group and Company's financial liabilities (being trade and other payables and deferred income and payroll taxes and VAT or similar taxes) have contractual maturities as summarised below:

Group

31 December 2012	**Carrying amount £'000**	**< 1 year £'000**	**1–2 years £'000**	**2–5 years £'000**
Trade and other payables (current liabilities)	**3,609**	**3,609**	**–**	**–**
Trade and other payables (non-current liabilities)	**256**	**–**	**233**	**23**
	3,865	**3,609**	**233**	**23**

31 December 2011	Carrying amount £'000	< 1 year £'000	1–2 years £'000	2–5 years £'000
Trade and other payables (current liabilities)	3,795	3,795	–	–
Trade and other payables (non-current liabilities)	364	–	128	236
	4,159	3,795	128	236

Company

31 December 2012	**Carrying amount £'000**	**< 1 year £'000**	**1–2 years £'000**	**2–5 years £'000**
Trade and other payables (current liabilities)	**958**	**958**	**–**	**–**
Trade and other payables (non-current liabilities)	**256**	**–**	**233**	**23**
	1,214	**958**	**233**	**23**

Notes to the Financial Statements continued

For the year ended 31 December 2012

22. Financial instruments continued

31 December 2011	Carrying amount £'000	< 1 year £'000	1–2 years £'000	2–5 years £'000
Trade and other payables (current liabilities)	1,094	1,094	–	–
Trade and other payables (non-current liabilities)	344	–	108	236
	1,438	1,094	108	236

The Directors consider there to be no significant liquidity risks due to the significant cash balances of the Group.

(iv) Foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases which are denominated in a currency other than Sterling. Exposures to currency exchange rates are primarily denominated in US Dollars, Australian Dollars and Euros. The Group does not use derivatives to hedge translation exposures arising on the consolidation of its overseas operations.

At the year end, the Group had assets totalling £1,261,000 and liabilities totalling £508,000 denominated in Euros (2011: assets totalling £852,000 and liabilities totalling £563,000), assets totalling £993,000 and liabilities totalling £705,000 denominated in US Dollars (2011: assets totalling £759,000 and liabilities totalling £559,000) and assets totalling £490,000 and liabilities totalling £250,000 denominated in Australian Dollars (2011: assets totalling £323,000 and liabilities totalling £212,000). If each of the exchange rates weakened by 5%, the impact on the income statement would be as follows:

	Group	
	2012 £'000	2011 £'000
Euros	**4**	11
US Dollars	**17**	6
Australian Dollars	**7**	10
	28	27

At the year end, the Company had liabilities totalling £267,000 denominated in Euros (2011: liabilities totalling £349,000), liabilities totalling £47,000 denominated in US Dollars (2011: liabilities totalling £110,000) and liabilities totalling £28,000 denominated in Australian Dollars (2011: liabilities totalling £69,000).

Capital risk management

The Group's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets. The Group follows a progressive dividend policy.

The Company has no debt, and therefore the total capital managed by the Group as at the year end was its total equity balance of £4,474,000 (2011: £3,847,000). Further details in respect of movements in capital are provided in the statement of changes in equity.

22. Financial instruments continued

Summary of financial assets and liabilities by category

The carrying amounts of the financial assets and liabilities as recognised at the statement of financial position date of the years under review may also be categorised as follows:

	Group		Company	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Financial assets				
Loans and receivables	**–**	–	**–**	–
Cash and cash equivalents	**1,643**	1,617	**11**	13
Trade and other receivables	**1,715**	1,751	**28**	39
	3,358	3,368	**39**	52
Financial liabilities				
Trade and other payables	**3,505**	3,660	**854**	939
Contingent consideration	**360**	499	**360**	499
	3,865	4,159	**1,214**	1,438

Contingent consideration is a level 3 liability in the fair value hierarchy and is valued based on an estimate of the present value of the likely consideration payable. A level liability is valued using valuation techniques where one or more significant inputs are based on unobservable market data.

23. Control

No individual shareholder, or shareholders acting in concert, hold more than 50% of voting shares, and accordingly there is not considered to be an "ultimate controlling party".

24. Related party transactions

Company

The Company has a related party relationship with its subsidiaries, its Directors, and other employees of the Company with management responsibility.

During the year the Company received a management charge of £63,000 (2011: £92,000) and a dividend of £65,000 from its subsidiary company Dillistone Systems (US) Inc (2011: £189,000). At the year end Dillistone Systems (US) Inc was owed £47,000 (2011: £110,000) by the Company.

During the current year Dillistone Systems Limited paid a dividend of £1,000,000 (2011: £1,750,000) to Dillistone Group Plc and a management charge of £128,000 (2011: £302,000). At the year end Dillistone Systems Limited was owed £435,000 (2011: £446,000).

The Company received a management charge during the year from Dillistone Systems (Australia) Pty Limited of £60,000 (2011: £60,000) and at the year end owed it £28,000 (2011: £69,000).

Voyager Software paid a management charge of £130,000 (2011: £32,000) and owed the Company £13,000 at the year end (2011: £22,000).

Management charges payable by Group members to Dillistone Group Plc relate to management support provided directly to them.

The Directors received dividends paid by the Company of £299,000 (2011: £292,000).

Notes to the Financial Statements continued

For the year ended 31 December 2012

25. Dividends

The dividends paid in 2012 and 2011 were £643,000 (3.533p per share) and £609,000 (3.5p per share) respectively after adjusting for the bonus issue. A final dividend in respect of the year ended 31 December 2012 of 2.5p per share will be paid on 26 June 2013. These financial statements do not reflect this dividend.

Under company law, any distribution made by a company to its shareholders must not exceed the amount of distributable reserves reported in the last annual accounts of the Company circulated to shareholders. In the event that the last annual accounts do not show sufficient distributable reserves to pay all or any part of the dividends concerned, then it is a company law requirement that a company prepares unaudited interim accounts demonstrating sufficient distributable reserves prior to payment of such dividend ("Interim Accounts"). In the case of a public company, Interim Accounts need to have been properly prepared and filed with the Registrar of Companies before a dividend is declared or (in the case of an interim dividend) paid.

In the years 2006 to 2010, the Company paid dividends to shareholders in part out of distributable profits generated in the year in which the dividends were paid, rather than in respect to the distributable reserves available by reference to the last filed annual accounts or relevant Interim Accounts.

Whilst the Group did have sufficient distributable reserves at the relevant times to cover the whole amounts of the dividends paid in the years 2006 to 2010, at the time that those dividends were paid, sufficient distributable reserves had not been distributed from the other companies within the Group and paid to the Company by way of intra-group dividends. Accordingly the payment of the dividends in this period has given rise to certain technical breaches of the Companies Act 1985 or the Companies Act 2006.

Interim Accounts for the six months to 30 June 2011 were prepared by the Company and filed with the Registrar of Companies, showing distributable reserves sufficient to allow the appropriation of reserves necessary to rectify the past dividend issue.

At a general meeting in November 2011, shareholders voted on and passed four resolutions to rectify and ratify the payment of the dividends paid in the years 2006 to 2010, which were made in breach of the Companies Act 1985 or the Companies Act 2006 and to release any claims that the Company may have against its shareholders or Directors (whether past present or future) in respect of the dividends paid incorrectly. This matter is now resolved.

Directors and Advisers

Directors	M D Love – Non-Executive Chairman G R Fearnley – Non-Executive Director J S Starr – Chief Executive R Howard – Operations Director A D James – Product Development Director J P Pomeroy – Group Finance Director A F Milne – Director of Support Services
Secretary	J P Pomeroy
Company number	4578125
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Principal bankers	Barclays Bank PLC 240 Whitechapel Road PO Box 14623 London E1 1SH
Solicitors	Ashfords LLP Tower Wharf Cheese Lane Bristol BS2 0JJ
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Notes

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