DSG
Dillistone Group Plc

Empowering Recruitment Globally Through Technology

Annual Report and Accounts 2013

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 over 2,000 firms in over 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.

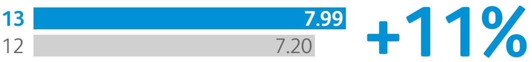
Highlights

Highlights for the year:

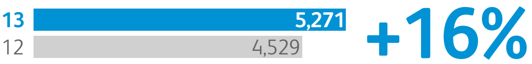
- Revenues up 15% to £8.1m
- Record level of recurring revenues of £5.3m up 16% from 2012
- Adjusted operating profits[1] up 7% to £1.8m
- Adjusted EBITDA[2] increased 12% to £2.2m
- Adjusted pre-tax profits[3] up 7% to £1.8m
- Adjusted earnings per share[4] up 11% to 7.99p
- Final dividend of 2.6p per share recommended, making total dividend for the year of 3.85p (a yield of 3.5% on a share price of 111p)
- Cash funds of £1.4m (2012: £1.6m) after acquisition related payments of £0.9m. The Group remains debt free
- FCP Internet acquired in July 2013

1 Adjusted operating profit is statutory operating profit before acquisition costs, related intangible amortisation, movements in deferred consideration and other one-off costs relating to acquisitions.
2 Adjusted EBITDA is adjusted operating profit with depreciation and amortisation added back.
3 Adjusted pre-tax profits is statutory pre-tax profits before acquisition costs, related intangible amortisation, movements in deferred consideration and other one-off costs relating to acquisitions.
4 Adjusted earnings per share is computed from statutory profits after tax adjusted to exclude the post-tax effect of acquisition costs, related intangible amortisation, movements in deferred consideration and other one-off costs relating to acquisitions.

Adjusted basic EPS pence



Recurring Revenues £'000



"These are another strong set of results with each of our divisions delivering both top line and bottom line growth, while integrating the FCP Internet business and continuing to invest in our future. We are also, once again, pleased to be increasing our dividend."

Mike Love
Non-Executive Chairman

www.dillistonegroup.com

Dillistone Group at a Glance

Our two Divisions are Dillistone Systems and Voyager Software

Dillistone Systems division

Dillistone Systems is a leading global supplier of software to executive search firms and to in-house search teams at major corporations and not-for-profit organisations. The Division'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.

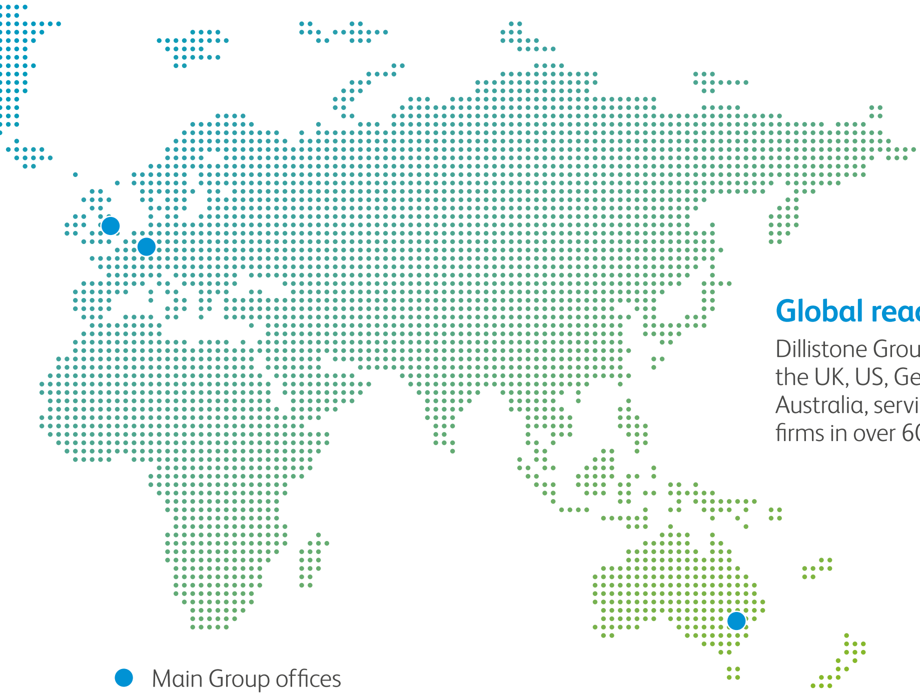
Dillistone Systems is widely acknowledged to work with more executive search firms than any comparable supplier, and is also considered to be a thought leader in this space. As a result, the Division has also moved beyond the supply of software, and provides additional services including training in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

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 had 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.



Main Group offices

Global reach

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

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 contingency 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 Microsoft .NET framework technology and replaces the Voyager Professional product.

In July 2013, the Group acquired FCP Internet, suppliers of the Evolve SaaS product, and this has subsequently been folded into the Voyager division. Today, 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 40 people.

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 FileFinder10 was released after over two years of development.

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

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

2013
In July 2013 the Group made its second acquisition of FCP Internet.

2014
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 across the Globe and employs nearly 100 people.

Dillistone Group at a Glance continued

Dillistone Systems division

Products

FileFinder is designed specifically for the executive search market with FileFinder 10 being the latest generation of the product.

FileFinder is an executive search database, CRM system, research tool, report writer and project management solution all rolled into one. It is designed to support every element of the search process.

The software is available on an outright purchase model with support, as a Software as a Service (SaaS) solution or a combination where the customer buys the product outright but is hosted by the Division.

FileFinder
Dillistone.com

Voyager Software division

Products

Voyager is a leading provider of innovative recruitment software. Its focus is on service and delivering tangible benefits and its recruitment solutions offer rapid deployment and return on investment. The products span the entire recruitment landscape, from the front office to the back office and even to bureaus. By combining recruitment software products the Division has a strong track record of delivering vertical market solutions.

FRONT OFFICE products:
Voyager Infinity manages the timetables of recruiters working to fill permanent and longer-term contract/temporary vacancies.

Voyager Commercial brings further unique tools that optimise a candidate's entire association with a temporary or short-term contract placement agency.

Voyager VDQ! is designed for fast-paced blue and white collar temporary placement agencies that have to quickly assemble transient or ad-hoc teams to serve highly volatile and urgent labour requirements.

MIDDLE AND BACK OFFICE products:
Voyager Mid-Office, Voyager's flexible Pay & Bill solution, automates the processing of large volumes of invoices and payments to numerous clients and candidates.

Voyager Bureau enables bureaus to subcontract back-office operations for multiple client recruitment companies on a single platform.

VIRTUAL VOYAGER:
With **Virtual Voyager,** all Voyager products can now be hosted and delivered to any customer PC with an Internet connection.

Through FCP Internet, the division also provides its evolve™ software

evolve™ has been designed to deliver an effective workflow solution for all sizes and types of recruitment business. It is delivered only as a SaaS product.

Infinity   VDQ!   evolve   MID-OFFICE THE FLEXIBLE PAY & BILL SOLUTION   Virtual Voyager The complete hosted solution

Chairman's Statement

The Group has again enjoyed another successful year in 2013, delivering its best ever performance in terms of both revenue and operating profit. Revenue was up 15% to £8.1m and adjusted operating profits up 7% to £1.8m. We have two divisions – Dillistone Systems and Voyager Software – and both delivered top line and bottom line growth.

The acquisition of FCP Internet (FCP) in July 2013 has once again proven our ability to acquire and integrate businesses successfully. The FCP team is now settled into our wider Group, client retention has been good and the evolve™ SaaS product is continuing to perform well in the market. FCP contributed £472,000 to revenue and £55,000 to profit before taxation in 2013.

It is the view of the Board that product development is fundamental to the long term success of the business and as a result 2014 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 2013 to 1.25p (2012: 1.2p). The Board has recommended a final dividend of 2.6p per share (2012: 2.5p), subject to shareholder approval, payable on 25 June 2014 to holders on the register on 16 May 2014. Shares will trade ex-dividend from 14 May 2014. This takes the total dividend based on the 2013 results to 3.85p, and gives a yield of 3.5% on a share price of 111p.

This represents another year on year increase in the dividend, in line with our progressive dividend policy, which illustrates the Board's confidence in the future prospects of the Group. The business is committed to maintaining its policy of investing in its products and services whilst rewarding its shareholders.

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.

Outlook

The Board retains a confident outlook on prospects for the Group.

At this stage, while first half revenues are expected to be ahead of the equivalent period for 2013, it is anticipated that first half pre-tax profit will be below that delivered in 2013. We announced in summer 2013 that we were strengthening our management team and this, along with the increased amortisation of our product development, are two of the key reasons behind the increase in expected costs. However, taking the year as a whole, the Group expects to make positive progress in 2014, the scale of which will become clearer as the year evolves.

Within our Dillistone Systems division, we have sold more new systems in the first quarter of 2014 than we did in the same period of 2013, however, income from new systems sales in 2014 is lagging that seen in 2013, in part due to an increase in the proportion of purchases delivered on the cloud subscription model, which has an impact on near term revenues.

Our Voyager division delivers products into a range of recruiting markets. Performance has varied across these, with a number of products delivering a strong performance.

With a strong profile of recurrent revenues, the Group continues to generate cash allowing us to continue to invest in improving our products and services whilst maintaining our dividend policy.

Both the Dillistone Systems and Voyager Software divisions anticipate making significant product related announcements later in the year.

Dr Mike Love
Non-Executive Chairman
28 April 2014

CEO's Review

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

Strategy and objectives

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 typically 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.

The Group's objectives are principally to:

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

Our business model

The business is split into two divisions, 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. Across our subsidiaries, we work with around 2,000 firms in approximately 60 countries. Further details of the products we supply are given in the 'At a Glance' section.

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

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

The business has offices in four countries, the UK, Germany (through a branch), the US and Australia. This enables the Group to support its customers on an approaching 24/5 basis. As well as supplying and supporting our software we also host the software for a proportion of our clients. This is done through data centres in Europe, the US, Singapore and Australia.

Review of the business

2013 saw recurring revenues grow 16% to £5.271m (2012: £4.529m) reflecting the acquisition of FCP Internet, whose revenues (£472,000) are included in the Group results for the first time and are mainly recurring in nature. Recurring revenues represent 65% of Group revenues (2012: 64%). Overheads have increased across the business in part as a result of our decision to strengthen management depth in anticipation of future growth but, despite this, pre-tax profits before acquisition related items increased 7% to £1.801m (2012: £1.684m).

Dillistone Systems

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

In my 2013 report, I noted that, in 2012, according to statistics from the Trade association the Association of Executive Search Consultants (AESC), the retained search market had shrunk but that Dillistone Systems had grown its install base despite that trend. I am able to report a very similar story in 2013, with the AESC reporting that the total number of mandates taken on by search firms in 2013 fell by 8.5%. Despite this, Dillistone Systems was again able to sign up a new client roughly every other working day.

Key Performance Indicators (KPIs)

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

	FY 2013 £'000	FY 2012 £'000	Measure
Total revenue	8,101	7,052	year on year growth
Recurring revenues	5,271	4,529	year on year growth
Non-recurring revenues	2,428	2,140	year on year growth
Adjusted profit before tax	1,801	1,684	year on year growth
Cash	1,399	1,643	sufficient cash resources maintained

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

In addition, we successfully sold our FileFinder product into a variety of different corporate sectors. These included retail, technology, private equity, management consulting, energy, banking, publishing and the public sector.

The division continued to invest in enhancing our products and services. For a number of years, Dillistone Systems has offered cloud hosting facilities in the UK and Australia, and facilities in the US and Asia have been added since the publication of our last report.

Our development team has continued to develop the FileFinder product, and has delivered performance and functionality improvements since launch. The division expects to make an important product related announcement later this year.

Dillistone Systems' head office is in London and it has offices in the US, Germany and Australia. The division accounts for 61% (2012: 66%) of the Group's revenue and saw recurring revenue grow 3% to £3.248m (2012: £3.144m). As a whole, the division saw segmental operating profit before amortisation and depreciation increase by 5% to £2.013m (2012: £1.912m).

Revenue	2013 £'000	2012 £'000
Recurring income	3,248	3,144
Non-recurring income	1,675	1,522
	4,923	4,666

Voyager Software

Voyager Software performed well in 2013. The division successfully delivered its largest ever contract and has seen its 'Infinity' product gain good momentum in the market.

The Infinity product was a major development for the business and, since launch, work has continued to optimise it for larger firms and certain delivery models.

July 2013 saw us acquire FCP Internet, a UK focused SaaS business targeting the recruitment industry via its product, evolve™. The integration of the business has been successfully completed, with the majority of staff transferring to existing Group offices in Basingstoke and London. Client retention has been strong, and the evolve™ platform today supports more users than ever before.

In 2013, the Voyager Software division accounted for 40% of Group revenues. The division's revenues were £3.202m and it had a segmental operating profit before amortisation and depreciation of £0.598m.

Revenue	2013 £'000	2012 £'000
Recurring income	2,023	1,385
Non-recurring income	777	618
Third party revenues	402	383
	3,202	2,386

Although both divisions are run separately, synergies continue to be delivered. Both divisions are committed to continuing to invest in their products to ensure they retain their market leading positions.

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 23.

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 in excess of 2,000 customers 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.

CEO's Review continued

Exchange risk

The Group 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	Mitigation
Economic risk to our core markets	The recruitment industry has a reputation for being vulnerable to the cyclical nature of the economy. This can impact significantly on non-recurring revenue and to a lesser extent recurring revenue.	The Group operates globally and so is not reliant on one economy. It enjoys a high percentage of recurring revenues. The acquisition of Voyager and FCP have increased the exposure to the UK economy. Future acquisitions may be overseas. In a downturn there may be a reduction in new permanent hires which may be replaced by temporary hires. This could impact our traditional executive search market. The Group's suite of products now supports more aspects of the third party recruitment market through its acquisition of Voyager (in 2011) and FCP. The temporary recruitment market is potentially anti-cyclical.
New product risk	The introduction of new products might 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 Group.	Products are tested pre-launch and launch strategies are developed to minimise risks. These risks are being actively monitored for all products.
Attrition of customer base	Failure to attract new customers, or the loss of existing customers may have a detrimental effect on the Group's ability to generate revenues.	Actively manage existing customer relationships and endeavour to promptly deal with issues.
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.	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. The Group continues to innovate and provide solutions to client needs.

Risk	Potential adverse impact	Mitigation
Business continuity risks associated with information systems' operational failure and data security	A failure of systems or failure of hosting 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. External attacks on servers could result in lost or corrupted data and loss of reputation.	Each division is reliant on data centres. Work is ongoing to improve disaster recovery plans. Data backups occur daily and the necessary tests carried out on a regular basis to ensure data can be restored. Penetration testing will help ensure systems are safe from attack.
Employee engagement and retention	Capability to meet the demands of the markets in which the Group operates and competes effectively with other IT suppliers is largely dependent on the skills, experience and performance of staff. 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.
Acquisition risk	The Group has made two acquisitions since 2011 and is likely to make further acquisitions in the future. This creates the potential risk that acquisitions may not perform or may contain hidden risks or liabilities.	For all acquisitions and in advance of completion, management undertakes due diligence and prepare integration plans including risk identification. These papers are reviewed and approved by the Board prior to any commitment being entered into.
Ability to finance acquisitions and expansion	The Group wants to grow by acquisition and this requires that it will have the ability to fund such expansion either via borrowing or placement, or through the availability of its own cash resources.	New bankers appointed in 2013 for the Group and good dialogue maintained. Changes to EIS relief likely to be beneficial in raising new finance through share issues. Investor relations programme in place.
Management capacity	As the business grows there may be insufficient support to ensure that the growth is effectively managed and integrated.	Investment in additional management in 2013 and the divisional boards and the Group Board continue to review the need for additional resources.

On behalf of the Board

Jason Starr
Chief Executive
28 April 2014

Financial Review

Total revenues increased by 15% to £8.101m (2012: £7.052m), with profit before tax and acquisition related items up 7% to £1.801m (2012: £1.684m). Recurring revenues increased by 16% to £5.271m (2012: £4.529m).

Total Revenue £'000

13	8,101
12	7,052
11	5,448
10	4,251
09	3,655

Recurring Revenues £'000

13	5,271
12	4,529
11	3,248
10	2,536
09	2,344

Adjusted EBITDA £'000

13	2,242
12	1,998
11	1,633
10	1,358
09	1,234

Adjusted Profit Before Tax £'000

13	1,801
12	1,684
11	1,405
10	1,182
09	1,080

Adjusted basic EPS pence

13	7.99
12	7.20
11	6.26
10	5.13
09	5.01

Non-recurring revenues saw an increase of 13% to £2.428m from £2.140m in 2012. Third party software product sales amounted to £0.402m in the period (2012: £0.383m). These results include FCP revenues from July 2013.

Cost of sales increased by 11% to £0.957m (2012: £0.864m), reflecting the impact of FCP from 8 July 2013.

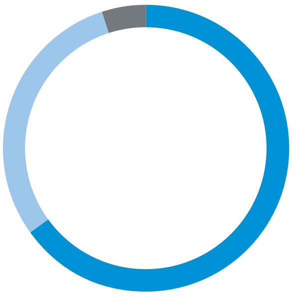
Administrative costs, excluding acquisition related items, depreciation and amortisation, rose 15% to £4.901m (2012: £4.246m), reflecting a part year of FCP and increased investment in management. Depreciation and amortisation increased to £0.449m (2012: £0.327m). Acquisition related administrative costs totalled £0.210m (2012: £0.102m) and relate to acquisition costs and amortisation of intangibles arising on the Voyager and FCP acquisitions offset by a reduction in the estimated contingent consideration payable re Voyager of £0.058m. Interest income has also been offset by the unwinding of the discount in respect of the deferred consideration.

Recurring revenues covered 98% of administrative expenses before acquisition related costs (2012: 99%). Excluding depreciation and amortisation of our own internal development, the administrative costs are more than covered at 108% (2012: 107%).

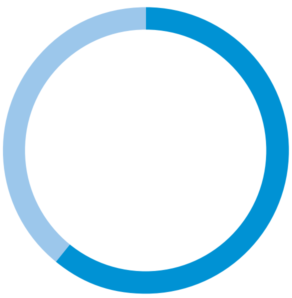
Tax has been provided at an effective rate of 19% (2012: 22%) excluding acquisition related items and at 19% (2012: 18%) post acquisition related costs. These rates reflect the R&D tax credits available to both Dillistone Systems and Voyager Software that have been claimed, partially offset by the higher rates of corporation tax that are payable overseas. The post acquisition related items rate also reflects the reduction in deferred consideration and the write off of acquisition costs together with the reduction in deferred tax rate used in the accounts from 23% to 21%.

Profits for the year before acquisition related items rose 11% to £1.455m (2012: £1.311m) and profits for the year after acquisition related items decreased marginally to £1.231m (2012: £1.235m). Basic earnings per share (EPS) rose 11% to 7.99p (2012: 7.20p) before acquisition related items and decreased by 0.5% to 6.76p (2012: 6.79p) after such items. Fully diluted EPS rose 7% to 7.70p (2012: 7.18p) and decreased 4% to 6.51p (2012: 6.76p) after acquisition related items.

Revenue analysis
2013



Divisional revenue analysis
2013



Capital expenditure

The Group invested £0.830m in property, plant and equipment and product development during the year (2012: £0.872m). This expenditure included £0.747m (2012: £0.803m) spent on development costs, of which £0.250m relates to development in Voyager Software (2012: £0.403m), that has been capitalised under IFRS in the Group accounts.

Trade and other payables

As with previous years, the trade and other payables include income which has been billed in advance but is not recognised as income at that time. This principally relates to support, SaaS and hosting renewals which are billed in December 2013 but that are in respect of services to be delivered in 2014. Contractual income of this type is recognised monthly over the period to which it relates. It also includes deposits taken for work which has not yet been completed, as such income is only recognised when the work is substantially complete or the client software goes 'live'. Also included in trade and other payables is £0.918m (2012: £0.360m) relating to consideration and contingent consideration due to former Voyager and FCP shareholders. The contingent consideration in respect of Voyager Software is dependent on the level of revenue achieved by the division in the periods up to 31 December 2013.

There are four tranches of deferred contingent consideration in respect of FCP and they are dependent on levels of revenue achieved in periods up until 31 March 2015.

Cash

Dillistone finished the year with cash funds of £1.399m (2012: £1.643m) and remains debt free. This is after capital expenditure of £0.830m, the payment to the vendors of Voyager and FCP of £0.900m (net of cash received with FCP) and dividend payments of £0.683m.

On behalf of the Board

Julie Pomeroy
Finance Director
28 April 2014

Corporate Governance Report

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 2.5% 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 2013 the Audit Committee comprised the Chairman and the Non-Executive Director and met twice during the year.

The Finance Director, Group Chief Executive Officer (CEO) 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 2013 the Remuneration Committee comprised the Chairman, the Non-Executive Director and, by invitation, the Group CEO and the Company Secretary. It is responsible for recommending to the Board the contract terms, remuneration and other benefits for Executive Directors, including the 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 Group 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 ask questions at 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. In addition, webinars have been introduced following announcements, giving shareholders and other interested parties more access to the Company.

Auditors

A resolution authorising the Directors to set the remuneration of the Auditor will be put to shareholders at the forthcoming AGM.

Report to the Shareholders on Directors' Remuneration

Remuneration report

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

The Chairman and independent Non-Executive Director 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 Chairman and the Non-Executive Director.

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 £66,000 was payable to the Executive Directors in respect of 2013 (2012: £81,000).

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 have been granted phantom share options at the ruling mid-market price at the time of the grant. The awards are subject to meeting challenging EPS 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. In 2013 an alternative pure cash bonus fixed as a percentage of salary was introduced with similar EPS growth targets. It is expected that annual awards will be made under the scheme. Where phantom options are awarded, the value of the award is calculated at each reporting period using a Black Scholes model (see note 21 for further details). One of the phantom option schemes was replaced by a cash bonus scheme which fixes the maximum payout. 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 and fees £'000	Bonus £'000	Pension payments* £'000	Benefits £'000	**2013 Total £'000**	2012 Total £'000
Executive Directors						
J S Starr	104	18	13	1	**136**	139
R Howard	62	10	–	4	**76**	101
A D James	81	13	4	4	**102**	100
J P Pomeroy	81	13	7	1	**102**	101
A Milne	71	12	–	4	**87**	87
Non-Executive Directors						
M D Love	33	–	–	–	**33**	33
G R Fearnley	12	–	–	–	**12**	12
	444	66	24	14	**548**	573

* Includes cash payments in lieu of employer contributions and payments where salary sacrifice has been enabled.

LTIP award (not audited) – phantom options

	Number of phantom options granted in year	**Total value of all phantom option LTIP awards at 31 December 2013 £'000**	Total value of all phantom option LTIP awards at 31 December 2012 £'000
J S Starr	–	**29**	34
R Howard	–	**26**	31
A D James	–	**–**	18
J P Pomeroy	–	**–**	16
A Milne	–	**17**	20
	–	**72**	119

LTIP award (not audited) – % of salary arrangement

	Maximum payout awarded in period	**Total maximum value of all salary based LTIP awards at 31 December 2013 £'000**	Total maximum value of all salary based LTIP awards at 31 December 2012 £'000
J S Starr	37	**72**	–
R Howard	21	**55**	–
A D James	28	**55**	–
J P Pomeroy	28	**51**	–
A Milne	25	**48**	–
	139	**281**	–

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 2013**	Total number of options granted under LTIP scheme at 31 December 2012
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 2013	At 31 December 2012
J S Starr	**3,554,443**	3,554,443
R Howard	**3,300,000**	3,524,433
A D James	**101,494**	121,494
M D Love	**450,622**	272,137
G R Fearnley	**453,435**	993,435
A Milne	**59,109**	59,109
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 2013	At 31 December 2012
A D James	**109,589**	109,589
J P Pomeroy	**137,027**	137,027
	246,616	246,616

Board of Directors

Mike Love, aged 65
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.

Jason Starr, aged 42
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 Ltd 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 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.

Rory Howard, aged 46
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.

Alex James, aged 41
Product Development Director

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

Alistair Milne, aged 38
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. 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 Limited Board in 2006 and joined the Group Board in January 2011.

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

Julie Pomeroy, aged 58
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.

Giles Fearnley, aged 59
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 2013.

Results and dividends

The consolidated statement of comprehensive income for the year is set out on page 20.

An interim dividend of 1.2p per share was paid in June 2013. A final dividend of 2.6p per share will be paid, subject to shareholder approval, on 25 June 2013.

Directors

The following Directors have held office since 1 January 2013 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 15.

Mike Love, Rory Howard and Alistair Milne are proposed for re-election at the forthcoming AGM. Rory Howard and Alistair Milne have a service contract with a one year notice period.

Principal shareholders

As at the 22 April 2014 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%
Unicorn Asset Management	900,043	4.94%
CFS Independent	870,889	4.78%
R Howells	650,000	3.57%

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 **Voyager Software Limited, 12 Cedarwood Crockford Lane Chineham Park Basingstoke RG24 8WD** on 11 June 2014 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 2013 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; and
- 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 so far as each Director is aware:

- 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
28 April 2014

Independent Auditor's Report

To the Members of Dillistone Group Plc for the year ended 31 December 2013

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 2013 which comprise the consolidated statement of comprehensive income, the consolidated and parent company statements of changes in equity, the consolidated and parent company statement of financial position, the consolidated 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 18, 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 2013 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 Strategic Report and 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
28 April 2014

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Revenue	3	**8,101**	7,052
Cost of sales		**(957)**	(864)
Gross profit		**7,144**	6,188
Administrative expenses		**(5,561)**	(4,675)
Profit from operating activities	6	**1,583**	1,513
Adjusted operating profit before acquisition related items		**1,793**	1,671
Acquisition related items*		**(210)**	(158)
Operating profit		**1,583**	1,513
Financial income	8	**8**	13
Finance cost	5	**(68)**	(13)
Profit before tax		**1,523**	1,513
Tax expense	9	**(292)**	(278)
Profit for the year		**1,231**	1,235
Other comprehensive income net of tax:			
Items that will be reclassified subsequently to profit and loss			
Currency translation differences		**(16)**	(11)
Total comprehensive income for the year net of tax		**1,215**	1,224
Earnings per share – from continuing activities			
Basic	10	**6.76p**	6.79p
Diluted	10	**6.51p**	6.76p

* see accounts note 2 & 5.

The notes on pages 26 to 48 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Share option £'000	Foreign exchange £'000	Total £'000
Balance at 31 December 2011	910	451	365	1,934	24	163	3,847
Comprehensive income							
Profit for the year ended 31 Dec 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 charge	–	–	–	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**
Comprehensive income							
Profit for the year ended 31 Dec 2013	–	–	–	1,231	–	–	1,231
Other comprehensive income							
Exchange differences on translation of overseas operations	–	–	–	–	–	(16)	(16)
Total comprehensive income	–	–	–	1,231	–	(16)	1,215
Transactions with owners							
Issue of share capital	4	47	–	–	–	–	51
Share option charges	–	–	–	–	53	–	53
Dividends paid	–	–	–	(683)	–	–	(683)
Total transactions with owners	4	47	–	(683)	53	–	(579)
Balance at 31 December 2013	**914**	**498**	**365**	**3,076**	**121**	**136**	**5,110**

The notes on pages 26 to 48 are an integral part of these consolidated financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2013

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Share option £'000	Total £'000
Balance at 31 December 2011	910	451	365	975	24	2,725
Comprehensive income						
Total comprehensive income for the year ended 31 December 2012	–	–	–	808	–	808
Transactions with owners						
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**
Comprehensive income						
Total comprehensive income for the year ended 31 December 2013	–	–	–	715	–	715
Transactions with owners						
Issue of share capital	4	47	–	–	–	51
Share option charge	–	–	–	–	53	53
Dividends paid	–	–	–	(683)	–	(683)
Total transactions with owners	4	47	–	(683)	53	(579)
Balance at 31 December 2013	**914**	**498**	**365**	**1,174**	**121**	**3,072**

The notes on pages 26 to 48 are an integral part of these consolidated financial statements.

Consolidated and Company Statement of Financial Position

As at 31 December 2013

	Notes	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
ASSETS					
Non-current assets					
Goodwill	12	**2,745**	2,490	**–**	–
Intangible assets	13	**4,833**	3,048	**–**	–
Property, plant and equipment	14	**127**	124	**–**	–
Investments	15	**–**	–	**5,675**	4,111
		7,705	5,662	**5,675**	4,111
Current assets					
Inventories	16	**78**	62	**–**	–
Trade and other receivables	17	**1,790**	1,715	**365**	28
Cash and cash equivalents		**1,399**	1,643	**78**	11
		3,267	3,420	**443**	39
Total assets		**10,972**	9,082	**6,118**	4,150
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	19	**914**	910	**914**	910
Share premium		**498**	451	**498**	451
Merger reserve		**365**	365	**365**	365
Retained earnings		**3,076**	2,528	**1,174**	1,142
Share option reserve	21	**121**	68	**121**	68
Translation reserve		**136**	152	**–**	–
Total equity		**5,110**	4,474	**3,072**	2,936
Liabilities					
Non-current liabilities					
Trade and other payables	18	**459**	256	**459**	256
Deferred tax liability	9	**901**	592	**–**	–
Current liabilities					
Trade and other payables	18	**4,313**	3,609	**2,587**	958
Current tax payable		**189**	151	**–**	–
Total liabilities		**5,862**	4,608	**3,046**	1,214
Total liabilities and equity		**10,972**	9,082	**6,118**	4,150

The notes on pages 26 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 28 April 2014. 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 2013

	2013 £'000	2012 £'000
Operating activities		
Profit before tax	1,523	1,513
Less taxation paid	(273)	(250)
Adjustment for:		
Financial income	(8)	(13)
Financial cost	68	13
Depreciation and amortisation	621	553
Share option expense	53	47
Foreign exchange adjustments arising from operations	14	9
Operating cash flows before movement in working capital	1,998	1,872
Increase in receivables	(120)	(4)
Increase in inventories	(15)	(51)
Increase/(decrease) in payables	259	(149)
Net cash generated from operating activities	2,122	1,668
Investing activities		
Interest received	7	13
Purchases of property, plant and equipment	(83)	(69)
Investment in development costs	(747)	(803)
Acquisition of subsidiaries net of cash acquired	(715)	(98)
Deferred consideration paid	(185)	–
Net cash used in investing activities	(1,723)	(957)
Financing activities		
Proceeds from issue of share capital	51	–
Dividends paid	(683)	(643)
Net cash used by financing activities	(632)	(643)
Net (decrease)/increase in cash and cash equivalents	(233)	68
Cash and cash equivalents at beginning of year	1,643	1,617
Effect of foreign exchange rate changes	(11)	(42)
Cash and cash equivalents at end of year	1,399	1,643

The notes on pages 26 to 48 are an integral part of these consolidated financial statements.

Company Cash Flow Statement

As at 31 December 2013

	2013 £'000	2012 £'000
Operating activities		
Profit before tax	**783**	808
Less taxation paid	**–**	–
Adjustment for share option expense	**53**	46
Operating cash flows before movements in working capital	**836**	854
(Increase)/decrease in receivables	**(334)**	11
Increase/(decrease) in payables	**1,214**	(126)
Net cash generated from operating activities	**1,716**	739
Investing activities		
Investment in acquisitions	**(832)**	(98)
Deferred consideration paid	**(185)**	–
Net cash used in investing activities	**(1,017)**	(98)
Financing activities		
Dividends paid	**(683)**	(643)
Monies from share issue	**51**	–
Net cash used in financing activities	**(632)**	(643)
Net (decrease)/increase in cash and cash equivalents	**67**	(2)
Cash and cash equivalents at beginning of year	**11**	13
Cash and cash equivalents at end of year	**78**	11

The notes on pages 26 to 48 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the year ended 31 December 2013

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:

Significant estimates

In the application of the Group's accounting policies the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The key areas are summarised below:

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 21.

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 12.

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 22.

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.

Judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management make various judgements that can significantly affect the amounts recognised in the financial statements. The critical judgements are considered to be the following:

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.

1. Accounting policies continued

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 has made relevant judgements based on discussions with the account managers as regards the recoverability of trade receivables.

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.

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 CEO's Review and Financial Review on pages 6 to 11. In addition, note 23 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 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.

Product support, hosting and software as a service (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, has been received. Where 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.

Notes to the Financial Statements continued

For the year ended 31 December 2013

1. Accounting policies continued

Third party revenues

The Group sells software developed by other organisations together with services that are bought in from third parties. Sales of third party software are recognised in the period in which the sale occurs. Services are recognised in the period in which they are provided.

1.5 Share based payments

The Company operates two share based payment schemes and one cash based scheme.

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 revalued at each half year end using a Black Scholes model and the necessary movement in the liability is recognised through the income statement. The liability is included in non-current liabilities. The Directors agreed to waive their rights under the plan maturing in 2014 and replace it with a capped cash bonus scheme with the similar performance conditions and which matures in the same time-frame.

Where there is a modification to a cash settled scheme, the change in fair value between the current and previous scheme is immediately recognised in the consolidated comprehensive statement of income.

The LTIP awards granted in 2013 were based on a capped cash bonus with performance conditions related to the growth in earnings per share of the Group. These awards automatically mature following the publication of the Annual Report of the Company, three years after the period to which the grant relates. The liability is accrued and recognised through the income statement.

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 Adjusted operating profit

Adjusted operating profit excludes acquisition costs and related intangible amortisation and movements in deferred consideration and other one off costs which can include, as an example, buying out onerous contracts acquired through an acquisition.

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. Maintenance costs are expensed.

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.

Notes to the Financial Statements continued

For the year ended 31 December 2013

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	6–11.25 years
Contractual customer relationships	1.25 years
Non-contractual customer relationships	10–10.25 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	3–5 years straight line
Fixtures, fittings and equipment	4 years 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 considers 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.

Derecognition 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 considers that the Group's financial liabilities fall under the 'financial liabilities measured at amortised cost' category other than contingent consideration which is measured at fair value. 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.

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. Accounting policies continued

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.

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.

Notes to the Financial Statements continued

For the year ended 31 December 2013

1. Accounting policies continued

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 2013. Except as noted, the implementation of these standards is not expected to have a material effect on the Group.

Standard
IAS 12 (Amendment): Deferred tax – Recovery of Underlying Assets
IAS 19 (Revised): IAS 19 Employee Benefits
IFRS 7 (Amendment): Disclosures – Offsetting Financial Assets and Financial Liabilities
IFRS 13: Fair Value Measurement

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of IFRS 13 is broad and it applies for both financial and non-financial items for which other IFRSs require or permit fair value measurements or disclosures about fair value measurements except in certain circumstances.

IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013. Its disclosure requirements need not be applied to comparative information in the first year of application. The Group has however included as comparative information the IFRS 13 disclosures that were required previously by IFRS 7 Financial Instruments: Disclosures.

The Group has applied IFRS 13 for the first time in the current year (note 24).

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
IFRS 9	Financial Instruments	1 January 2015
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
IAS 27	Separate Financial Statements	1 January 2014
IAS 28	Investments in Associates and Joint Ventures	1 January 2014
IAS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014

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

	Note	Adjusted operating profits 2013 £'000	Acquisition related items 2013* £'000	2013 £'000	Adjusted operating profits 2012 £'000	Acquisition related items and other one off costs 2012* £'000	2012 £'000
Revenue		8,101	–	8,101	7,052	–	7,052
Cost of sales		(957)	–	(957)	(808)	(56)	(864)
Gross profit		7,144	–	7,144	6,244	(56)	6,188
Administrative expenses		(5,351)	(210)	(5,561)	(4,573)	(102)	(4,675)
Results from operating activities		1,793	(210)	1,583	1,671	(158)	1,513
Financial income		8	–	8	13	–	13
Financial cost		–	(68)	(68)	–	(13)	(13)
Profit before tax		1,801	(278)	1,523	1,684	(171)	1,513
Tax expense		(346)	54	(292)	(373)	95	(278)
Profit for the year		1,455	(224)	1,231	1,311	(76)	1,235
Other comprehensive income net of tax:							
Currency translation differences		(16)	–	(16)	(11)	–	(11)
Total comprehensive income for the year net of tax		1,439	(224)	1,215	1,300	(76)	1,224
Earnings per share – from continuing activities							
Basic	10	7.99p		6.76p	7.20p		6.79p
Diluted	10	7.70p		6.51p	7.18p		6.76p

* see accounts note 5.

3. Segment reporting

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

Divisional segments

For the year ended 31 December 2013	Dillistone £'000	Voyager £'000	Inter-divisional Revenue £'000	Central £'000	Total £'000
Recurring income	3,248	2,023	–	–	5,271
Non-recurring income	1,675	777	(24)	–	2,428
Third party revenues	–	402	–	–	402
Segment revenue	4,923	3,202	(24)	–	8,101
Segment EBITDA	2,013	598		(369)	2,242
Depreciation and amortisation expense	(358)	(91)		–	(449)
Segment result	1,655	507		(369)	1,793
Acquisition related amortisation	–	–		(172)	(172)
Acquisition related charges	–	–		(38)	(38)
Operating profit/(loss)	1,655	507		(579)	1,583
Financial income	7	1		–	8
Acquisition related interest expenses				(68)	(68)
Income tax expense					(292)
Profit after tax					1,231
Additions of non-current assets	546	284		–	830
Segment assets	2,341	971		82	3,394
Intangibles and goodwill	1,870	691		5,017	7,578
Total	4,211	1,662		5,099	10,972
Segment liabilities	2,959	1,009		1,894	5,862

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
Acquisition related amortisation	–	–	(227)	(227)
Acquisition related charges	–	(84)	153	69
Operating profit	1,631	354	(472)	1,513
Financial income	12	1	–	13
Acquisition related interest expenses			(13)	(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

Notes to the Financial Statements continued

For the year ended 31 December 2013

3. Segment reporting continued

Products and services

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

Revenue

	2013 £'000	2012 £'000
Recurring income	5,271	4,529
Non-recurring income	2,428	2,140
Third party revenues	402	383
	8,101	7,052

Recurring income includes all support services, 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.

4. Geographical analysis

The following table provides an analysis of the Group's revenue by geographic market.

The Board does not review the business from a geographical performance viewpoint and this analysis is provided for information only.

Revenue

	2013 £'000	2012 £'000
UK	6,188	4,995
US	1,228	1,239
Australia	685	818
	8,101	7,052

Non current assets by geographical location

	2013 £'000	2012 £'000
UK	7,698	5,654
US	5	4
Australia	2	4
	7,705	5,662

5. Acquisition related items

	2013 £'000	2012 £'000
Estimated change in fair value of contingent consideration (note 22)	(57)	(153)
Payment in respect of onerous contract acquired at acquisition	–	56
Tax costs relating to options exercised pre-acquisition of Woodcote	–	28
Amortisation of acquisition intangibles	172	227
Fees relating to the acquisition of FCP (note 22)	95	–
	210	158
Unwinding of discount on contingent consideration	68	13
	278	171

6. Profits from operating activities

	2013 £'000	2012 £'000
Profits from operating activities is stated after charging:		
Depreciation	93	88
Amortisation	528	465
Loss on foreign exchange transactions	2	3
Operating lease rentals – land and buildings	176	184
Money purchase pension contributions	97	50
Fees receivable by the Group auditors:		
Audit of financial statements	22	21
Other services:		
Audit of accounts of subsidiary of the Company	43	32
Other services relating to taxation	34	20
All other services	33	–

7. Employees

The average number of employees was:

	2013	2012
Operations	87	79
Management	7	6
Employee numbers	94	85

Their aggregate remuneration comprised:

	2013 £'000	2012 £'000
Wages and salaries	3,713	3,340
Social security costs	410	381
Pension costs	97	50
Share based payments charged and LTIP	186	130
	4,406	3,901

The aggregate remuneration includes salary cost and Directors' remuneration totalling £474,000 (2012: £366,000) that have been capitalised in intangible assets.

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

	2013 £'000	2012 £'000
Wages and salaries and benefits	699	735
Social security costs	83	83
Pension costs	36	8
Share based payments charge and LTIP charge	164	107
	982	933

Details of Directors' emoluments, share options and pension entitlements are given in the Report to the Shareholders on Directors' Remuneration on pages 14 to 15.

8. Financial income

	2013 £'000	2012 £'000
Interest receivable	8	13
Unwinding of discount on contingent consideration	(68)	(13)
	(60)	–

Notes to the Financial Statements continued

For the year ended 31 December 2013

9. Tax expense

	2013 £'000	2012 £'000
Current tax	308	251
Deferred tax	38	101
Deferred tax re acquisition intangibles	(54)	(74)
Income tax expense for the year	292	278
Factors affecting the tax charge for the year		
Profit before tax	1,523	1,513
UK rate of taxation	23.25%	24.5%
Profit before tax multiplied by the UK rate of taxation	354	371
Effects of:		
Overseas tax rates	49	67
Impact of deferred tax not provided	(15)	16
Enhanced R&D relief	(112)	(142)
Disallowed expenses	103	31
Rate change impact on deferred tax	(27)	(50)
Prior year adjustments	(60)	(15)
Tax expense	292	278

Deferred tax provided in the financial statements is as follows:

	Group			Company	
	2013 £'000	Movement £'000	2012 £'000	2013 £'000	2012 £'000
Accelerated intangible amortisation	433	39	394	–	–
Provisions	(9)	(1)	(8)	–	–
Acquisition intangibles	477	271	206	–	–
	901	309	592	–	–

The UK corporation tax rate in the year fell from 24% to 23% giving an effective rate for the year of 23.25%. The tax rate is expected to fall again to 21% in April 2014 and subsequently to 20%. Where deferred tax is provided in relation to the UK it has been provided at 21%. 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 £227,000 (2012: £221,000) for which no deferred tax asset has been recognised.

10. Earnings per share

	2013 Using adjusted operating profit £'000	2013 £'000	2012 Using adjusted operating profit £'000	2012 £'000
Profit attributable to ordinary shareholders	1,455,000	1,231,000	1,311,000	1,235,000
Weighted average number of shares	18,211,321	18,211,321	18,201,294	18,201,294
Basic earnings per share	7.99 pence	6.76 pence	7.20 pence	6.79 pence
Weighted average number of shares after dilution	18,902,055	18,902,055	18,261,915	18,261,915
Fully diluted earnings per share	7.70 pence	6.51 pence	7.18 pence	6.76 pence

Reconciliation of basic to diluted average number of shares

	2013	2012
Weighted average number of shares (basic)	18,211,321	18,201,294
Effect of dilutive potential ordinary shares – employee share plans	690,734	60,621
Weighted average number of shares after dilution	18,902,055	18,261,915

11. Profit for the financial year

As permitted by section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements. The profit for the financial year for the parent company was £715,000 (2012: £808,000).

12. Goodwill

Group	Goodwill £'000
Cost	
At 1 January 2012	2,490
Additions	–
At 31 December 2012	2,490
Additions	255
At 31 December 2013	**2,745**
Carrying amount	
At 31 December 2013	**2,745**
At 31 December 2012	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 (CGU) to which the goodwill has been allocated. The recoverable amount of the cash generating unit 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 CGUs and rates used by comparable companies. The pre-tax discount rate used to calculate value-in-use is 12% (2012: 12%). Growth rates for forecasts take into account historic experience and current market trends. Costs are reviewed and increased for inflation and other cost pressures. The long term growth rate used for the terminal value calculation is 2% (2012: 2%) for all CGUs. The allocation of goodwill across the CGUs is as follows:

	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	–	–	1,996
FCP	–	255	–	255
	2,490	255	–	2,745

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 41%. Alternatively, cash flows would need to fall by 75%. For FCP, cash flows would need to reduce by almost 90% to reduce the head room to £nil. No meaningful sensitivity for the Dillistone goodwill reduces the headroom to £nil.

Notes to the Financial Statements continued

For the year ended 31 December 2013

13. Intangible assets

Group	Development costs £'000	Acquisition intangibles £'000	Total £'000
Cost			
At 1 January 2012	2,250	1,178	3,428
Additions	803	–	803
At 31 December 2012	3,053	1,178	4,231
Additions through acquisition at fair value	15	1,551	1,566
Additions	747	–	747
At 31 December 2013	**3,815**	**2,729**	**6,544**
Amortisation			
At 1 January 2012	661	57	718
Charge for the year	238	227	465
At 31 December 2012	899	284	1,183
Charge for the year	356	172	528
At 31 December 2013	**1,255**	**456**	**1,711**
Carrying amount			
At 31 December 2013	**2,560**	**2,273**	**4,833**
At 31 December 2012	2,154	894	3,048

Acquisition intangibles can be summarised as follows:

	Brand £'000	Developed technology £'000	Contractual and non-contractual relationship £'000	Total £'000
Cost				
At 1 January 2013	178	271	445	894
Additions	–	157	1,394	1,551
Amortisation	(13)	(40)	(119)	(172)
At 31 December 2013	**165**	**388**	**1,720**	**2,273**

14. Property, plant and equipment

Group	Land and buildings £'000	Office and computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
At 1 January 2012	163	522	130	815
Currency impact	–	(3)	–	(3)
Additions	3	66	–	69
Disposals	–	(40)	–	(40)
At 31 December 2012	166	545	130	841
Currency impact	–	(5)	–	(5)
Additions	–	77	6	83
Additions by acquisition	–	11	3	14
Disposals	–	(25)	–	(25)
At 31 December 2013	**166**	**603**	**139**	**908**
Depreciation				
At 1 January 2012	163	419	90	672
Currency impact	–	(3)	–	(3)
Charge for the year	1	64	23	88
Eliminated on disposal	–	(40)	–	(40)
At 31 December 2012	164	440	113	717
Currency impact	–	(4)	–	(4)
Charge for year	1	73	19	93
Eliminated on disposal	–	(25)	–	(25)
At 31 December 2013	**165**	**484**	**132**	**781**
Carrying amount				
At 31 December 2013	**1**	**119**	**7**	**127**
At 31 December 2012	2	105	17	124

15. Non-current asset investments

Company	Investments in subsidiaries £'000
Cost	
At 1 January 2012	4,111
Additions	–
At 31 December 2012	4,111
Additions	1,564
At 31 December 2013	**5,675**

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
FCP Internet Limited	Provision of software services and related consultancy services	100%	England & Wales
FCP Internet Holdings Limited	Intermediate holding company	100%	England & Wales
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

Notes to the Financial Statements continued

For the year ended 31 December 2013

16. Inventories

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Licences for resale	**78**	62	**–**	–

17. Trade and other receivables

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Trade and other receivables	**1,565**	1,483	**–**	–
Group receivables	**–**	–	**354**	21
Other current assets	**61**	36	**7**	4
Prepayments and accrued income	**164**	196	**4**	3
	1,790	1,715	**365**	28

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:

	2013 £'000	2012 £'000
At start of year	**83**	78
Movement in the year	**7**	5
At the year end	**90**	83

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

	2013 £'000	2012 £'000
Current	**1,272**	1,226
Past due date:		
31–60 days overdue	**121**	51
More than 60 days overdue	**172**	206
Total	**1,565**	1,483

18. Trade and other payables

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Current liabilities				
Trade and other payables	**612**	430	**53**	27
Group payables	**–**	–	**1,623**	518
Deferred income	**2,475**	2,483	**–**	–
Accruals	**1,226**	696	**911**	413
	4,313	3,609	**2,587**	958
Non-current liabilities				
Contingent consideration	**352**	137	**352**	137
Cash settled share based provision	**107**	119	**107**	119
	459	256	**459**	256

Contingent consideration is included in the trade and other payables and is valued at fair value. The amounts included are as follows:

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Current liabilities				
In accruals	**566**	223	**566**	223
In non-current liabilities	**352**	137	**352**	137
	918	360	**918**	360

Further details of the contingent consideration is given in note 22.

19. Share capital

	2013 £'000	2012 £'000
Allotted, called up and fully paid		
Ordinary shares of 5 pence each	**914**	910

In November 2013, WH Ireland, the Company's nomad and broker, exercised a warrant over 69,930 shares at a price of 71.5p.

	2013	2012
Shares issued and fully paid		
Beginning of the year	**18,205,190**	18,196,277
Shares issued on exercise of options	**69,930**	8,913
Shares issued and fully paid	**18,275,120**	18,205,190

20. Operating lease arrangements

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

At 31 December 2013, the Group had future total commitments under non-cancellable operating leases as follows:

	2013 £'000	2012 £'000
Commitments payable:	**202**	335
Within one year	**154**	167
Between two and five years	**48**	168

21. 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'). The terms and conditions of both schemes are the same. 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, which would normally be three years after grant. Performance conditions are associated with the options granted on 29 May 2012.

During 2013 the Group made two grants 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
8 July 2013	38,000	79.50p	79.50p	30%	3.3 years	18%	0.86%	3.0%
25 Nov 2013	20,000	115.00p	115.00p	30%	3.0 years	0%	0.86%	3.0%

There was one grant of options in 2012. 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%

Notes to the Financial Statements continued

For the year ended 31 December 2013

21. Share options continued

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

	2013		2012	
	No of options*	**WAEP***	No of options*	WAEP*
Outstanding at beginning of year	**743,355**	**74.09**	552,446	74.01
Granted during year	**58,000**	**91.74**	220,822	73.00
Exercised during year	**–**	**–**	(8,913)	5.39
Forfeited during year	**(47,000)**	**85.49**	(21,000)	89.67
Outstanding at the end of the year	**754,355**	**74.74**	743,355	74.09
Exercisable at the year end	**62,739**	**59.20**	80,739	68.11

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

No Directors exercised share options during the year. The Company's mid-market share price on 31 December 2013 was 105.5p.

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 £53,000 (2012: £47,000).

Share options remaining in the schemes are as follows:

Scheme type	Date of grant	Exercise from	Lapse date	Options remaining	Exercise price (p)
Unapproved	03/05/2006	03/05/2009	02/05/2016	26,739	5.38
EMI	14/09/2007	14/09/2010	13/09/2017	36,000	99.17
Unapproved	14/01/2011	14/01/2014	13/01/2022	30,000	58.33
EMI	21/09/2011	21/09/2014	20/09/2022	363,794	77.00
Unapproved	21/09/2011	21/09/2014	20/09/2021	19,000	77.00
EMI	29/05/2012	29/05/2015	28/05/2023	220,822	73.00
EMI	08/07/2013	08/07/2016	07/07/2023	31,000	79.50
Unapproved	08/07/2013	08/07/2016	07/07/2023	7,000	79.50
EMI	25/11/2013	25/11/2016	24/11/2023	20,000	115.00
				754,355	

No share options were exercised during the year. In 2012 8,913 shares were exercised at a weighted average share price of 68.5p. The weighted average remaining contractual life of options at 31 December 2013 was 8.5 years (2012: 8.4 years).

Cash settled options

During 2011 the Board introduced a long term incentive scheme for Directors. The scheme granted 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 2013.

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%	0.33 years	0%	0.3%	4.00%
29 May 2012	384,932	73p	73p	60%	1.33 years	0%	0.4%	4.00%

* Adjusted for the 2 for 1 bonus issue.

21. Share options continued

The phantom options were granted in 2011 pursuant to the Company's 2011 long term incentive plan (LTIP) with exercise conditions linked to share price growth and growth in earnings per share over a three year period (measured by taking the earnings per share in the 2013 statutory accounts compared to the earnings per share in the 2010 statutory accounts).

As the recent rise in the Company's share price meant that the awards would exceed one-third of salary, in 2014, the Executive Directors waived their right to the excess and the LTIP awards were amended so that the awards took the form of a cash bonus with a maximum pay-out, if all exercise conditions were met in full, of one-third of annual salary (as at the date of award) but with no link to share price. Performance conditions remain in place.

The expense charged in respect of the LTIP for the year was £133,000 (2012: £83,000). The total liability carried forward was £252,000 (2012: £119,000) and £145,000 is included in current liabilities and £107,000 in non-current liabilities.

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

22. Acquisitions

On 8 July 2013, the Group acquired the entire share capital of FCP Internet Holdings Limited ('Holdings') and its wholly owned subsidiary FCP Internet Limited ('FCP') for an estimated consideration before fees of £1,565,000, which was satisfied as detailed below. This was part of the Group's strategy to broaden our offering to the recruitment sector.

Holdings is a non-trading holding company. FCP (www.evolvedb.co.uk), sells its evolve™ product to its target market of recruitment agencies. This product, which is wholly delivered through a SaaS model, is designed to facilitate the filling of temporary or permanent vacancies and is used by hundreds of users around the World. FCP operates in the same market sector as the Group's Voyager Software business and is UK based. It forms part of the Voyager Software division.

The details of the business combination are as follows:

	Book value £'000	Fair value adjustments £'000	Fair value intangibles adjustments £'000	Fair value £'000
Assets				
Non-current assets				
Property, plant and equipment	33	(20)	–	13
Intangible assets	82	(67)	1,551	1,566
Current assets				
Trade and other receivables	35	(1)	–	34
Cash and cash equivalents	117	–	–	117
Total assets	**267**	**(88)**	**1,551**	**1,730**
Liabilities				
Trade and other payables	(93)	(1)	–	(94)
Deferred tax liability	–	–	(326)	(326)
Net assets acquired	**174**	**(89)**	**1,225**	**1,310**
Goodwill				255
				1,565
Satisfied by				
Cash consideration				750
Cash consideration in relation to surplus working capital				82
Contingent consideration				733
				1,565
Fair value of consideration transferred				
Amount settled in cash consideration in period				832
Cash and cash equivalents acquired				(117)
Net cash outflow on acquisition				715
Acquisition costs charged to expenses				95
Net cash paid relating to acquisition				810

Notes to the Financial Statements continued

For the year ended 31 December 2013

22. Acquisitions continued

The total consideration of £1,565,000 net of cash acquired of £117,000 was £1,448,000 before fees. The fair value adjustment of £89,000 relates mainly to the writing down of intangible assets and property, plant and equipment to their fair value, adopting more closely the accounting policies adopted by the Group. Fees of £95,000 were expensed and included in acquisition related costs. In addition, following a detailed review of the fair value of assets and liabilities acquired, in accordance with IFRS 3 Business Combinations the Group has recognised two intangible assets totalling £1,551,000 made up as follows:

	£'000	Estimated life
Intangible assets		
Developed technology	157	6 years
Customer relationships	1,394	10 years
	1,551	

Goodwill of £255,000 represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. The goodwill arising on the acquisition consists largely of the workforce value, synergies and economies of scale expected from combining the operating with Dillistone Group companies.

As part of the acquisition, the Group agreed to pay additional consideration based on surplus working capital retained in the business at completion. Following a completion accounts verification process, an amount of £82,000 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:

- £50,000 – provided that certain revenues in January 2014 exceeded those in January 2013.
- Up to 60% of recurring revenues in the nine month period to 31 March 2014. The percentage varies depending on the level of recurring revenues.
- Up to 50% of recurring revenues in the nine month period to 31 December 2014. The percentage varies depending on the level of recurring revenues.
- Up to 50% of recurring revenues in the three month period to 31 March 2015. The percentage varies depending on the level of recurring revenues.

The contingent consideration has been calculated based on the information available at the year end and not solely based on the information at the time of the acquisition. The deferred consideration as at acquisition has been discounted at an annual rate of 16.99% with a resulting charge in the 2013 accounts of £58,000. The value of the deferred contingent consideration at 31 December 2013 was £790,000. The maximum deferred consideration payable is £1,200,000.

From the date of acquisition to 31 December 2013, the acquired companies contributed £472,000 to revenue and £55,000 to profit before taxation. In the last financial year, being the year ended 31 October 2012, the acquired companies made a profit before taxation of £171,000 and before an exceptional loss totalling £320,000 relating to a loan write-off to a sister company, NowWeComply Limited, which was sold prior to acquisition. However, due to a change in year end, lack of audited accounts and exceptional write-offs, pro-forma profit or loss of the combined entity for the complete 2013 reporting period cannot readily be determined.

Deferred consideration payable in respect of earlier acquisitions

As part of the acquisition of Voyager Software, the Group agreed to pay additional contingent consideration. During 2013 it made payments totalling £186,000. The final tranche of the deferred consideration is due to be paid in April 2014 and is derived as follows:

- 30% of the revenue of the acquired companies over £2,300,000 in the year ending 31 December 2013.

In the 2013 accounts, the amounts payable under the contingent consideration have been reduced by £57,000 based on the revenues for 2012 and on the revenue for 2013. These amounts have been discounted at 4.5% and resulted in a discount charge to the profit and loss account of £11,000.

23. 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's 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.

23. Financial instruments continued

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 £1,399,000 (2012: £1,643,000). 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 £19,000 (2012: increase of £20,000).

(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 17.

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	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Trade and other receivables (current assets)	**1,565**	1,483	**354**	21
Cash and cash equivalents	**1,399**	1,643	**78**	11
Total	**2,964**	3,126	**432**	32

(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 has sufficient liquidity to meet its liabilities when due.

As at 31 December 2013, 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 2013	**Carrying amount £'000**	**< 1 year £'000**	**1–2 years £'000**	**2–5 years £'000**
Trade and other payables (current liabilities)	**4,313**	**4,313**	**–**	**–**
Trade and other payables (non-current liabilities)	**459**	**–**	**424**	**35**
	4,772	**4,313**	**424**	**35**

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

The bank has a fixed and floating charge over the assets of the Group if monies are owed. As at the year-end no amounts were due to the bank.

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23. Financial instruments continued

Company

31 December 2013	Carrying amount £'000	< 1 year £'000	1–2 years £'000	2–5 years £'000
Trade and other payables (current liabilities)	**2,587**	**2,587**	**–**	**–**
Trade and other payables (non-current liabilities)	**459**	**–**	**424**	**35**
	3,046	**2587**	**424**	**35**

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

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 (AUD) 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 £1,322,000 and liabilities totalling £518,000 denominated in Euros (2012: assets totalling £1,261,000 and liabilities totalling £508,000), assets totalling £602,000 and liabilities totalling £573,000 denominated in US Dollars (2012: assets totalling £1,120,000 and liabilities totalling £852,000) and assets totalling £353,000 and liabilities totalling £259,000 denominated in Australian Dollars (2012: assets totalling £287,000 and liabilities totalling £250,000). If each of the exchange rates weakened by 5%, the impact on the income statement would as follows:

	Group	
	2013 £'000	2012 £'000
Euros	**2**	4
US dollars	**14**	17
Australian dollars	**9**	7
	25	28

At the year end, the Company had liabilities totalling £183,000 denominated in Euros (2012: liabilities totalling £267,000), assets totalling £225,000 denominated in US Dollars (2012: liabilities totalling £47,000) and assets totalling £22,000 denominated in Australian Dollars (2012: liabilities totalling £28,000).

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 £5,110,000 (2012: £4,474,000). Further details in respect of movements in capital are provided in the statement of changes in equity.

23. 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	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Financial assets				
Cash and cash equivalents	**1,399**	1,643	**78**	11
Trade and other receivables	**1,790**	1,715	**365**	28
	3,189	3,358	**443**	39
Financial liabilities held at amortised cost				
Trade and other payables	**3,854**	3,505	**2,128**	854
Financial liabilities held at fair value				
Contingent consideration	**918**	360	**918**	360
	4,772	3,865	**3,046**	1,214

24. Fair value measurement of financial instruments

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability

The following table shows the Levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis at 31 December 2013 and 31 December 2012:

	2013 £'000 Level 3	2012 £'000 Level 3
Contingent consideration:	**918**	360

The Group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. The finance team reports directly to the Group Finance Director and to the Audit Committee. The valuation techniques used for instruments categorised in Levels 2 and 3 are described below:

Contingent consideration (Level 3)

The fair value of contingent consideration relates to the acquisitions of Voyager Software and FCP internet (see note 22) and is estimated using a present value technique. The £790,000 fair value is mainly based on actual, budget or forecast revenues prepared by the finance team. The contingent consideration is discounted.

The discount rate used in respect of Voyager Software is 4.5%, and is based on an after tax estimated of the Group's theoretical borrowing rate for unsecured liabilities. The discount rate used for FCP Internet is 16.99% reflecting the cost of capital of the company.

25. 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'.

26. 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 £62,000 (2012: £63,000) and a dividend of £210,000 from its subsidiary company Dillistone Systems (US) Inc (2012: £65,000). At the year end Dillistone Systems (US) Inc was owed £209,000 (2012: £47,000) by the Company.

Notes to the Financial Statements continued

For the year ended 31 December 2013

26. Related party transactions continued

During the current year Dillistone Systems Limited paid a dividend of £1,000,000 (2012: £1,000,000) to Dillistone Group Plc and a management charge of £178,000 (2012: £128,000). At the year end Dillistone Systems Limited was owed £1,588,000 (2012: £435,000).

The Company received a management charge during the year from Dillistone Systems (Australia) Pty Limited of £55,000 (2012: £60,000) and at the year end owed it £28,000 (2012: £28,000).

Voyager Software paid a management charge of £144,000 (2012: £130,000) and owed the Company £29,000 at the year end (2012: £13,000). Woodcote Software owed the Company £13,000 at the year end (2012: nil).

FCP Internet Limited paid a management charge of £70,000 and owed the Company £67,000 at the year end (2012: £nil).

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 £318,000 (2012: £299,000).

27. Dividends

The dividends paid in 2013 and 2012 were £683,000 (3.75p per share) and £643,000 (3.533p per share) respectively after adjusting for the bonus issue. A final dividend in respect of the year ended 31 December 2013 of 2.6p per share will be paid on 25 June 2014. These financial statements do not reflect this dividend.

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

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