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Dillistone Group Plc

Dillistone Group Plc
Annual Report and Accounts 2014

Empowering recruitment globally through technology

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.

Contents

Highlights

- Revenues up 6% to £8.6m
- Record level of recurring revenues of £5.9m up 12% from 2013
- Adjusted operating profits[1] up 1% to £1.82m
- Adjusted EBITDA[2] up 7% to £2.4m
- Adjusted pre-tax profits[3] up 1% to £1.82m
- Profit for the year down 7% to £1.15m
- Adjusted earnings per share[4] up 7% to 8.56p
- Final dividend of 2.7p per share recommended, making total dividend for the year of 4p (a yield of 3.7% on a share price of 107p) (2013: 3.85p)
- Cash funds of £1.9m (2013: £1.4m) after acquisition related payments of £1.3m offset by £1.0m placing proceeds. Bank borrowings total of £0.5m (2013: nil)
- ISV Software acquisition completed in October 2014

Adjusted basic EPS pence

+7%

Recurring revenues £'000

+12%

"The Group has enjoyed another successful year in 2014, delivering its best ever performance in terms of revenue, adjusted operating profit and adjusted EPS. The business continued to invest, delivering a major new product launch in the Dillistone Systems division, while successfully completing the integration of FCP Internet into the Voyager Software division, and in September 2014 announcing the acquisition of ISV Software.

This represents our 3rd successive 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."

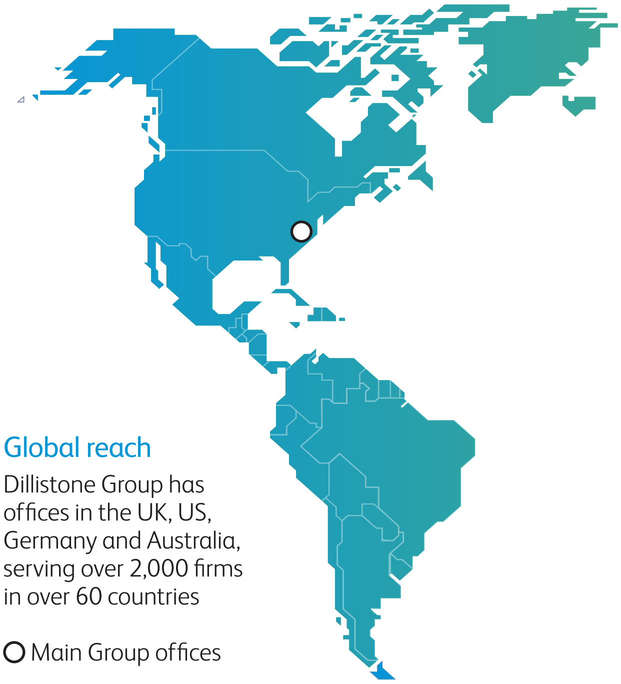
Dr Mike Love
Non-Executive Chairman

www.dillistonegroup.com

1 Adjusted operating profit is statutory operating profit before acquisition costs, related intangible amortisation, movements in contingent 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 contingent 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 contingent consideration and other one-off costs relating to acquisitions.

Dillistone Group at a Glance

Our two divisions are Dillistone Systems and Voyager Software



Global reach

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

O Main Group offices

Dillistone Systems Dillistone.com

Voyager the recruiter's choice

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 the FileFinder Anywhere suite which was launched in September 2014. 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.

Dillistone Systems Products

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

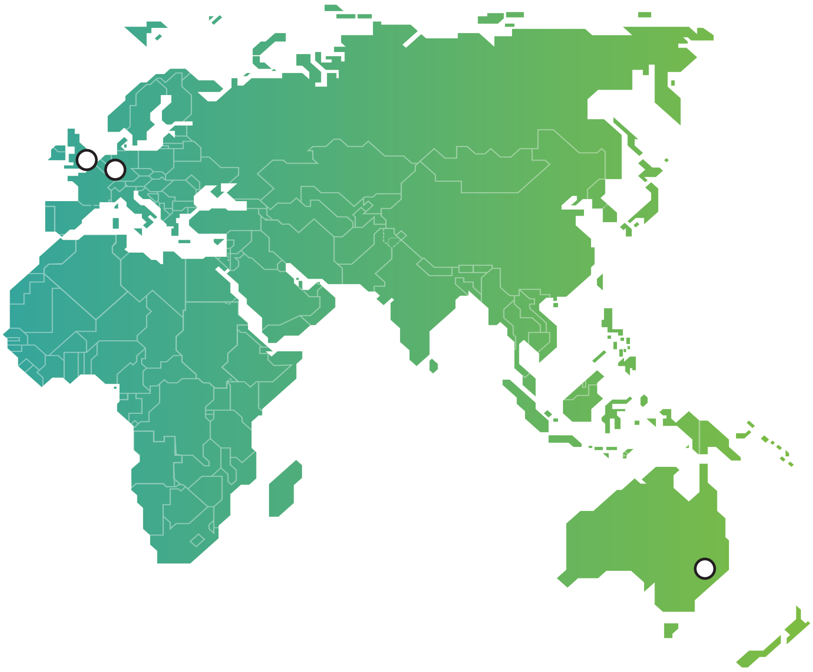
FileFinder is an executive search database, CRM system, research tool, report writer and project management solution all rolled into one. It is designed to support every element of the search process.

The product is unique in its market, in that it is available to purchase or to rent, and can be accessed via a Desktop App, a full Browser App, a Mobile App or through Microsoft Outlook.

Browser Desktop Outlook Mobile

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. In July 2013, the Group acquired FCP Internet, suppliers of the Evolve SaaS product, and this has subsequently been folded into the Voyager division. In October 2014, a further acquisition saw ISV Software – a supplier of skills testing and training services – folded into the 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 50 people.



Voyager Software 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.

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

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

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.

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 businesses. It is delivered only as a SaaS product.

Through ISV, the division provides its **fastPath** software. This software delivers pre-employment skills testing and training tools to recruitment businesses and corporates.

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.

Chairman's Statement

Mike Love
Non-Executive Chairman

"Product development is fundamental to the long term success of the business"

The Group has enjoyed another successful year in 2014, delivering its best ever performance in terms of revenue, adjusted operating profit and adjusted EPS. Revenue was up 6% to £8.63m and adjusted operating profits up 1% to £1.82m. Profit after tax fell 7% to £1.15m. Adjusted EPS rose 7% to 8.56p.

The business continued to invest, delivering a major new product launch in the Dillistone Systems division, while successfully completing the integration of FCP Internet into the Voyager Software division, and in September 2014 announcing the acquisition of ISV Software (ISV).

ISV (www.isvgroup.com) is a UK based supplier of training and testing services, primarily to the recruitment industry. ISV works with 9 of the 10 largest recruitment agencies in the UK (by office numbers) and 7 of the 10 largest by revenue. It offers over 200 published materials/tests covering many business sectors. ISV contributed £195,000 to revenue and £18,000 to profit before taxation during the three months of its ownership by Dillistone in 2014.

It is the view of the Board that product development is fundamental to the long term success of the business and, as a result, 2015 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 2014 to 1.30p (2013: 1.25p). The Board has recommended an increased final dividend of 2.7p per share (2013: 2.6p), subject to shareholder approval, payable on 24 June 2015 to holders on the register on 29 May 2015. Shares will trade ex-dividend from 28 May 2015. This takes the total dividend based on the 2014 results to 4.00p (2013: 3.85p), and gives a yield of 3.7% on a share price of 107p.

This represents our 3rd successive 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

Group revenues in the first quarter are ahead of the same period in 2014.

Our Dillistone Systems division has seen incoming orders in Q1 increase on the same period in the previous year reflecting, in part, the launch of the FileFinder Anywhere platform in September of 2014. As noted previously, since the launch of FileFinder Anywhere, the Division has been successful in winning a number of larger than average contracts and is currently in talks with a number of potential clients which, if successfully closed, would fall into this same category. These larger contracts do however take longer to implement and the full impact may not be seen in 2015. Nonetheless, the relative scale and increasing frequency of these opportunities validates the Board's strategy of investing in new product development and in the prospects for this iteration of FileFinder.

Revenues for our Voyager Software division are also up on the same period of 2014. The Division has invested significantly in product development over the past 2 years and it expects to announce a number of further notable product updates and launches in the coming months. These are expected to have a positive impact on the business in the medium to longer term.

Both Divisions currently see recurring revenue at record levels and the Group was delighted to sign an extension of one of its largest SaaS contracts during the first quarter of 2015. This contract, worth at a minimum, in the region of £250,000 per annum, has been extended until November 2016.

In the longer term, the Group's continuing investment in product development across all parts of the business gives the Board confidence in the future and, as a result, we are delighted to propose an increase in our final dividend of 3.8% to 2.7p (2013: 2.6p).

Dr Mike Love
Non-Executive Chairman
24 April 2015

Case study

How FileFinder Anywhere Supports O'Neill Consulting

O'NEILL CONSULTING GROUP

Dillistone Systems is a global market-leading provider of technology to executive recruitment companies and strategic talent acquisition teams.

In September 2014, it launched the latest generation of its flagship product – FileFinder Anywhere, which enables users to access their business-critical data via four platforms – Desktop Software, Mobile, Browser and Outlook – anywhere, anytime.

Since the launch, close to 100 companies have purchased or upgraded to FileFinder Anywhere, many of them reporting measurable benefits to their businesses.

One of the earliest adopters of FileFinder Anywhere is O'Neill Consulting, a client-centred retained Executive Search firm headquartered in South Kingstown, RI, USA. Alexandra Henry, Client Care Officer at O'Neill Consulting Group, shared her experience about the organisation's implementation of FileFinder Anywhere.

The Background

O'Neill Consulting Group is a retained search firm that aims to deliver high impact talent solutions to clients around the world. It specializes in the consumer, industrial, manufacturing, life sciences and private equity sectors with emphasis on finance, operations, human resources, supply chain, logistics and general management roles.

How impactful is being able to access your data from machines other than your traditional office desktops?

"That is going to be extremely impactful for us," commented Alexandra. She explained it would be much quicker and easier for the CEO and our Managing Directors, to access business information wherever they are.

How well does the product work on your Mac computers?

Some of O'Neill Consulting Group's employees work remotely and prefer to travel with their Macs. Alexandra said the product was "working well" on Mac computers, and speaking about the attachments feature, which enables users, including those on the road, to pull up attachments in relation to a search quickly.

How do you find the new Outlook integration?

Alexandra explained: "It's a lot easier to use, especially for people who are on the road – they don't have to go into the database; they can see a lot of information right there, which is going to be extremely helpful for us pulling information on candidates quickly."

How easy is the product to use?

"The product has been extremely easy; for us," explained Alexandra. "It has been very straightforward; it hasn't been a tricky process at all to switch over."

How are the stability and the speed of the product?

"The stability has been excellent. We haven't had any issues – I haven't had anyone tell me they've had any crash issues or problems with things not working correctly," said Alexandra. She described the speed of the product as "great". She added: "One thing that we really like, especially with a lot of our people on the road, is how quick the speed is between updating something on the desktop to the browser version."

Would you recommend FileFinder Anywhere?

"Yes, we would definitely recommend it, I think for firms that are growing and firms that have people outside of one office," commented Alexandra. "I highly recommend it for anyone who travels a lot or has remote employees and needs information quickly."

CEO's Review

Jason Starr
Chief Executive

"2014 saw recurring revenues grow 12% to £5.923m"

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 businesses offering:

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

The Group's objectives are principally to:

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

Key Performance Indicators (KPIs)

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

	FY 2014 £000	FY 2013 £000	Measure
Total revenues	8,625	8,101	year on year growth
Recurring revenues	5,929	5,271	year on year growth
Non-recurring revenues	2,285	2,428	year on year growth
Adjusted profit before tax	1,824	1,801	year on year growth
Cash less borrowings	1,443	1,399	sufficient cash resources maintained

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

Group review of the business

2014 saw recurring revenues grow 12% to £5.929m (2013: £5.271m) reflecting the full year impact of the acquisition of FCP Internet and also the acquisition of ISV in October 2014. Non-recurring revenues fell 6% to £2.285m (2013: £2.428m). As a result, overall revenues, which were negatively impacted by exchange rates, increased by 6% to £8.625m (2013: £8.101m). Recurring revenues represent 69% of Group revenues (2013: 65%). Overheads have increased across the business mainly as a result of the acquisitions with EBITDA increasing 7% to £2.402m (2013: £2.242m). Operating profits before acquisition related items increased 1% to £1.820m (2013: £1.793m) and pre-tax profits before acquisition related items also increased 1% to £1.824m (2013: £1.801m).

Divisional reviews

Dillistone Systems

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

Dillistone Systems' head office is in London and it has offices in the US, Germany and Australia. The Division accounts for 53% (2013: 61%) of the Group's revenue and saw recurring revenue fall 2% to £3.186m (2013: £3.248m) mainly due to the impact of currency movements. As a whole, the Division saw segmental operating profit before amortisation and depreciation decrease by 21% to £1.597m (2013: £2.013m).

Revenue

	2014 £'000	2013 £'000
Recurring income	3,186	3,248
Non-recurring income	1,371	1,675
	4,557	4,923

On the face of it, these are disappointing results. However, they are not unexpected, given our conscious and pre-stated decision to hold back the number of implementations we completed in the second half of the year. This enabled the successful replacement of the FileFinder 10 product with our new FileFinder Anywhere suite, launched to the market in September 2014, with the first 'live' implementations in November. FileFinder systems are business critical for our clients, and so we ensured that the product went through a significant beta test process. This meant that we deliberately implemented virtually no new client FileFinder systems between September and mid-November, so as to ensure that our development, implementation and support teams were able to provide our 'early adopters' with the level of service that they required.

This strategy has proven to be the correct one. Client feedback on the new product has been excellent, with a number of case studies and client testimonials already shown on our website.

We reported in our January trading statement that the new product had led to the Division achieving a number of early successes in the market, including:

- total order intake in Q4 of 2014 was more than 20% up on both Q4 of 2013 and on the average of Q1–Q3 2014;
- we won more new business contracts in December 2014 than in any single month in the last 2 years; and
- contract wins included our largest single North American win since 2009 with a number of clients switching from competing products.

The Division has seen further positive signs in 2015:

- January 2015 saw us win our largest contract in mainland Europe since 2007;
- February 2015 saw us win one of our largest ever upgrade contracts for an existing client;
- several new clients converted to FileFinder Anywhere from the product of our main competitor; and
- total orders in Q1 2015 were more than 12% up on Q1 2014.

CEO's Review continued

As a result, the Division has now seen 3 successive quarters of year on year growth in total orders. Divisional recurring revenues at the end of Q1 are once again climbing and we have a strong prospect pipeline. We are currently ramping up our implementation frequency meaning that Q2 is likely to see realised revenue ahead of Q1 with the expectation that H2 will be stronger again.

The new FileFinder Anywhere suite continues to be developed, and we anticipate further positive announcements within the next 12 months. As a result, while the 2014 divisional results were disappointing, the Board is confident that the Division has an exciting future.

Voyager Software
Voyager Software is a leading provider of innovative recruitment software with products targeted at the entire recruitment landscape, from front office to back office and bureaus.

Revenue

	2014 £'000	2013 £'000
Recurring income	**2,743**	2,023
Non-recurring income	**914**	777
Third party revenues	**411**	402
	4,068	3,202

In 2014, the Voyager Software division accounted for 47% (2013: 39%) of Group revenues. The Division's revenues were £4.068m and its segmental operating profit before amortisation and depreciation increased by 34% to £0.802m (2013: £0.598m). Recurring revenues increased by 36% to £2.743m (2013: £2.023m).

The Division benefited from the full year impact of the FCP acquisition made in July 2013 and the acquisition of ISV in October 2014. The Division successfully won 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 additional delivery models. Further announcements on this are expected in due course.

The year in review was our first full year with FCP Internet under our management. This acquisition has proven to be very successful, with the evolve product now supporting more users than at any point in its history. Work is underway to deliver an updated version of the product, with completion expected in the coming months.

ISV Software was acquired in October 2014. Unlike our other products, ISV provides pre-employment testing tools. It is the UK market leader. The business made a small contribution in 2014, and work is underway to integrate the product with the Voyager Software Infinity platform. This project should increase cross selling opportunities, and is likely to be completed this summer.

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 24.

Interest rate risk
The Group is exposed to interest rate risk through its floating rate borrowings and through its management of retained cash. The Group monitors its exposure to interest rate risk when borrowing and 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.

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
Although the Group has some borrowings it maintains positive cash resources and has sufficient available funds for its operations and planned expansion of its existing activities.

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). 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.

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

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

2011 In March 2011, FileFinder 10 was released after over two years of development. In September 2011, the Group made its first acquisition: 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: FCP Internet.

2014 In October 2014, the Group acquired ISV Software. 2014 saw the release of FileFinder Anywhere, a market leading product suited to mobile working.

CEO's Review continued

Principle risk 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	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 Company operates globally and so is not reliant on one economy. It enjoys a high percentage of recurring revenues. The acquisition of Voyager FCP and ISV has increased the exposure to the UK economy. In a downturn there may be a reduction in new permanent hires which may be replaced by temporary hires. The Group's suite of products now supports more aspects of the third party recruitment market through its acquisition of Voyager. 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 Company.	Products are tested pre launch and launch and implementation strategies developed to minimise risks. Additional unit testing built in and commitment to focus on user experience.
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 through account management structures and promptly deal with issues. The Group continues to invest in new products and new features being added.
Competitor activity	The market for recruitment software is extremely fragmented with a large number of small suppliers operating in all of the Group's geographical markets. Very few of these suppliers have the necessary financial, technical and marketing resources to be able to develop their competitive position. However, the competition may intensify through consolidation or new entrants to the market. Some competitors offer a broader product range enabling them to compete across the whole of the sector. The businesses can easily lose market share if its products are not well regarded either from being 'out of date' or 'buggy'. Some firms may try to compete on price, particularly if the market deteriorates. Currently, Voyager carries a very high marginal cost on its subscription model. Some competitors target Dillistone clients and make inroads based on their features.	The Group has strong customer relationships and uses account management to keep in touch with clients. The Group continues to invest in its product development and 2015 is expected to see the launch of a SaaS version of Infinity and a full browser version of FF. The Group continues to innovate and provide solutions to client needs. There is a focus on fixing bugs and issues as they arise to ensure the user experience is good. Pricing strategies reviewed on a regular basis. The introduction of a SaaS product should result in a more competitive subscription model for Voyager. The Group continue to look at developing new products and additional features to more readily compete.

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 ongoing to improve disaster recovery plans, including investing in SANs and use of the cloud. Plans are regularly reviewed on how to improve data centre management as the business grows worldwide. Data backups occur daily and the necessary test carried out on a regular basis to ensure data can be restored. Penetration testing helps minimise the risk of attacks.
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. Reliance on a small group of people especially in parts of the business.	To retain staff the Group operates competitive remuneration packages. Appraisals are carried out which also consider individual's personal development. Cross training being carried out where possible.
Acquisition risk	The Group has made three 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.	Ongoing discussions with investors and potential investors to build a following in Dillistone. Recent bank loan has established the feasibility of raising bank finance. Recent placing oversubscribed so Group has small fund available for future acquisitions.
Management capacity	Size of business means that management tends to be stretched and under resourced. As the business grows there may be insufficient support to ensure that the growth is effectively managed and integrated.	Investment in additional management in 2014. Structure of Divisional Boards under review as a way of developing senior management.

Financial Review

Julie Pomeroy
Finance Director

"Dillistone finished the year with cash funds of £1.923m and bank borrowings of £0.487m"

Total revenues increased by 6% to £8.625m (2013: £8.101m), with pre-tax profits before acquisition related items up 1% to £1.824m (2013: £1.801m).

Recurring revenues increased by 12% to £5.929m (2013: £5.271m) while non-recurring revenues saw a 6% decrease to £2.285m from £2.428m in 2013. Third party software product sales amounted to £0.411m in the period (2013: £0.402m). These results include FCP revenues for the full year and ISV revenues from October 2014.

Cost of sales increased by 16% to £1.108m (2013: £0.957m), reflecting the full year impact of FCP and also the impact of ISV from October 2014.

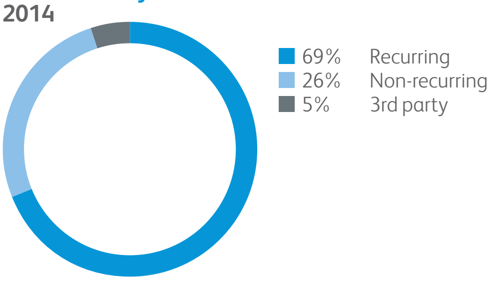
Administrative costs, excluding acquisition related items, depreciation and amortisation, rose 4% to £5.116m (2013: £4.901m), again reflecting the full year of FCP and ISV costs from October 2014. Depreciation and amortisation increased to £0.582m (2013: £0.449m). Administrative costs totalling £0.418m (2013: £0.210m), related to acquisition costs and amortisation of intangibles arising on the Voyager, FCP, and ISV acquisitions. Finance cost includes £0.101m relating to the unwinding of the discount in respect of the contingent consideration.

Recurring revenues covered 104% of administrative expenses before acquisition related costs (2013: 98%). Excluding depreciation and amortisation of our own internal development, the administrative costs are covered 116% (2013: 108%) by recurring revenues.

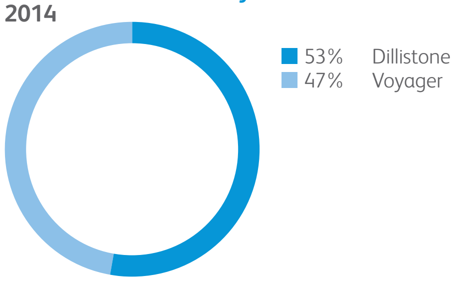
Tax has been provided at an effective rate of 13% (2013: 19%) excluding acquisition related items and at 12% (2013: 19%) post acquisition related costs. These rates reflect the R&D tax credits available to both Dillistone Systems and Voyager Software that have been claimed; the reduction in corporation tax rates from 23.25% to 21.5%; the release of prior year provisions relating in part to agreement of the prior years' tax position of the branch operation in Germany; and partially offset by the higher rates of corporation tax that are payable overseas. The post acquisition related items tax rate also reflects the reduction in deferred consideration and the write off of acquisition costs together with the reduction in the deferred tax rate used in the accounts from 21% to 20%.

Profits for the year before acquisition related items rose 9% to £1.584m (2013: £1.455m) and profits for the year after acquisition related items decreased to £1.145m (2013: £1.231m). Basic earnings per share (EPS) rose 7% to 8.56p (2013: 7.99p) before acquisition related items and decreased by 9% to 6.18p (2013: 6.76p) after such items. Fully diluted EPS rose 7% to 8.23p before acquisition related items (2013: 7.70p) and decreased 9% to 5.95p (2013: 6.51p) after acquisition related items.

Revenue analysis
2014



Divisional revenue analysis
2014



Capital expenditure

The Group invested £1.073m in property, plant and equipment and product development during the year (2013: £0.830m). This expenditure included £0.814m (2013: £0.747m) spent on development costs, of which £0.319m relates to development in Voyager Software division (2013: £0.250m) 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 2014 but that are in respect of services to be delivered in 2015. 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 £1.322m (2013: £0.918m) relating to deferred consideration and contingent consideration due to former FCP and ISV shareholders. The contingent consideration in respect of FCP is dependent on the level of revenue achieved by the Division in the periods up to 31 March 2015. There are four tranches of contingent consideration in respect of ISV and they are dependent on levels of revenue achieved in periods up until 30 September 2017 plus a deferred consideration payment payable in January 2015.

Cash

To part finance the acquisition of ISV, a placing of £0.500m was carried out and a bank loan of £0.500m obtained. Also in view of the demand for shares, two further placings, raising a total of £0.500m for working capital purposes, were carried out. Dillistone finished the year with cash funds of £1.929m (2013: £1.399m) and bank borrowings of £0.487m (2013: nil). This is after capital expenditure of £1.073m, the payment to the vendors of Voyager, FCP and ISV of £1.268m (net of cash received with ISV) (2013: £0.900m) and dividend payments of £0.723m (2013: £0.683m).

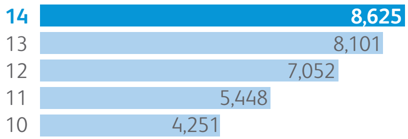
On behalf of the Board

Julie Pomeroy
Finance Director
24 April 2015

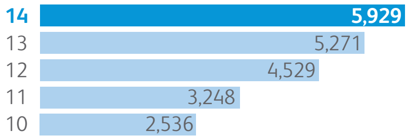
The Strategic Report is signed on behalf of the Board by

Jason Starr
Chief Executive
24 April 2015

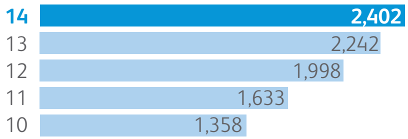
Total revenue £'000



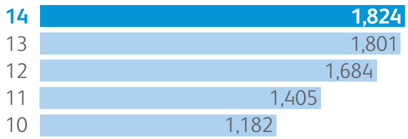
Recurring revenues £'000



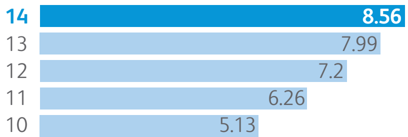
Adjusted EBITDA £'000



Adjusted profit before tax £'000



Adjusted basic EPS pence



Corporate Governance Report

Corporate governance
Dillistone Group Plc (the 'Company') is committed to maintaining high standards of corporate governance. The Company does not comply with the provisions of the UK Corporate Governance Code (the 'Code') in its entirety and it is not required to do so. However, the Board recognises the importance of sound corporate governance and will take appropriate measures to ensure that the Company complies with the main provision of the Code as far as practicable and to the extent appropriate given the Company's size, assets, liabilities and other relevant information. The summary below describes the extent to which the Company complies with the Code.

Leadership
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 2.3% is not considered by the Board to change his independence.

Effectiveness
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 has two committees:

Audit Committee
The Audit Committee comprised the Chairman and the Non-Executive Director and usually meets 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
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.

The Board has not delegated a Nomination Committee; the whole Board is involved in the appointment of any new Director.

The Board does not currently undertake an evaluation of its own performance or that of its committees.

Accountability
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.

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.

Risk management
The Board formally reviews the risk register at least annually and the consideration of risks and in particular the identification of new risks are an agenda item at each Board meeting.

Relationship with Company auditors
The auditors have ready access to the Chairman of the Audit Committee and the Audit Committee meets at least annually with the auditors without any member of the executive being present.

Remuneration
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.

No Director is involved in deciding his or her own remuneration.

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 are made following certain announcements, giving shareholders and other interested parties access to commentary from the Board.

Auditor
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 £22,000 was payable to the Executive Directors in respect of 2014 (2013: £66,000).

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 this later scheme going forward. Where phantom options are awarded, the value of the award is calculated at each reporting period using a Black-Scholes model (see note 22 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	Annual bonus £'000	Pension payments* £'000	Benefits £'000	2014 Total £'000	2013 Total £'000
Executive Directors						
J S Starr	93	5	27	–	**125**	136
R Howard	64	4	–	4	**72**	76
A D James	84	4	5	2	**95**	102
J P Pomeroy	83	4	9	–	**96**	102
A Milne	78	5	–	6	**89**	87
Non-Executive Directors						
M D Love	33	–	–	–	**33**	33
G R Fearnley	12	–	–	–	**12**	12
	447	22	41	12	**522**	548

* Includes payments where salary sacrifice has been enabled.

Long term incentive payments made in the period are not included in the above figures but are detailed below:

LTIP award (not audited) – phantom options

	Number of phantom options granted in year	Total value of all phantom option LTIP awards carried at 31 December 2014* £'000	Total value of all phantom option LTIP awards carried at 31 December 2013* £'000
J S Starr	–	11	29
R Howard	–	9	26
A D James	–	–	–
J P Pomeroy	–	–	–
A Milne	–	6	17
	–	26	72

LTIP award (not audited) – % of salary arrangement

	Maximum payout awarded in period	Paid in the year including employers NI	Total value of salary based LTIP awards carried at 31 December 2014* £'000	Total value of all salary based LTIP awards carried at 31 December 2013* £'000
J S Starr	37	14	5	47
R Howard	21	39	–	40
A D James	29	30	–	34
J P Pomeroy	29	26	–	31
A Milne	27	26	–	29
	143	135	5	181

* Awards accrued over the period that they relate to and the valuation takes into account the likelihood of performance conditions being met.

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 2014	Total number of options granted under LTIP scheme at 31 December 2013
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 2014	At 31 December 2013
J S Starr	3,564,443	3,554,443
R Howard	3,300,000	3,300,000
A D James	101,494	101,494
M D Love	703,254	450,622
G R Fearnley	453,435	453,435
A Milne	59,109	59,109
J P Pomeroy	39,682	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 2014	At 31 December 2013
A D James	109,589	109,589
J P Pomeroy	111,233	137,027
	220,822	246,616

Julie Pomeroy exercised 25,794 options during the year at a price of 77p.

Board of Directors

Mike Love, aged 66

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 43

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 was appointed a Non-Executive Director of AIM listed IPPlus PLC from 1 January 2015.

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.

Rory Howard, aged 47

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 42

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 39
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 59
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 60
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 £500m 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 2014.

Results and dividends

The consolidated statement of comprehensive income for the year is set out on page 22.

An interim dividend of 1.3p per share was paid in June 2014. A final dividend of 2.7p per share will be paid, subject to shareholder approval, on 24 June 2015.

Directors

The following Directors have held office since 1 January 2014 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 17.

Jason Starr and Alex James are proposed for re-election at the forthcoming AGM. Both have service contracts with a one year notice period.

Financial risk management

Details of the Group's financial risk management is set out in the Strategic Report section.

Principal shareholders

As at 23 April 2015, 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	3,564,433	18.38%
R Howard	3,300,000	17.02%
J McLaughlin	2,572,122	13.26%
Herald Investment Management	1,767,444	9.11%
Unicorn Asset Management	1,595,301	8.22%
CFS Independent	870,889	4.49%
M Love	703,254	3.62%
R Howells	650,000	3.35%

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 18 June 2015 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.

Auditor

Grant Thornton UK LLP was appointed as auditor for the year ended 31 December 2014 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 Company's financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

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

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

The Directors confirm that so far as each Director is aware:

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

24 April 2015

Independent Auditor's Report

To the Members of Dillistone Group Plc for the year ended 31 December 2014

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 2014 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 cash flow statements 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 20, 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

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 2014 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

24 April 2015

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Revenue	3	**8,625**	8,101
Cost of sales		**(1,108)**	(957)
Gross profit		**7,517**	7,144
Administrative expenses		**(6,115)**	(5,561)
Profits from operating activities	6	**1,402**	1,583
Adjusted operating profit before acquisition related items	2	**1,820**	1,793
Acquisition related items	5	**(418)**	(210)
Operating profit		**1,402**	1,583
Financial income	8	**6**	8
Finance cost	8	**(103)**	(68)
Profit before tax		**1,305**	1,523
Tax expense	9	**(160)**	(292)
Profit for the year		**1,145**	1,231
Other comprehensive income net of tax:			
Items that will be reclassified subsequently to profit and loss			
Currency translation differences		**(8)**	(16)
Total comprehensive income for the year net of tax		**1,137**	1,215
Earnings per share – from continuing activities			
Basic	10	**6.18p**	6.76p
Diluted	10	**5.95p**	6.51p

The notes on pages 28 to 56 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Share option £'000	Foreign exchange £'000	Total £'000
Balance at 31 December 2012	910	451	365	2,528	68	152	4,474
Comprehensive income							
Profit for the year ended 31 December 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 charge	–	–	–	–	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**
Comprehensive income							
Profit for the year ended 31 December 2014	–	–	–	1,145	–	–	1,145
Other comprehensive income							
Exchange differences on translation of overseas operations	–	–	–	–	–	(8)	(8)
Total comprehensive income	–	–	–	1,145	–	(8)	1,137
Transactions with owners							
Issue of share capital	55	934	–	–	–	–	989
Share option charges	–	–	–	16	(3)	–	13
Dividends paid	–	–	–	(723)	–	–	(723)
Total transactions with owners	55	934	–	(707)	(3)	–	279
Balance at 31 December 2014	**969**	**1,432**	**365**	**3,514**	**118**	**128**	**6,526**

The notes on pages 28 to 56 are an integral part of these consolidated financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2014

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Share option £'000	Total £'000
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
Comprehensive income						
Total comprehensive income for the year ended 31 December 2014	–	–	–	896	–	896
Transactions with owners						
Issue of share capital	55	934	–	–	–	989
Share option charge	–	–	–	16	(3)	13
Dividends paid	–	–	–	(723)	–	(723)
Total transactions with owners	55	934	–	(707)	(3)	279
Balance at 31 December 2014	**969**	**1,432**	**365**	**1,363**	**118**	**4,247**

The notes on pages 28 to 56 are an integral part of these consolidated financial statements.

Consolidated and Company Statements of Financial Position

As at 31 December 2014

	Notes	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
ASSETS					
Non-current assets					
Goodwill	12	**3,415**	2,745	**–**	–
Other intangible assets	13	**6,317**	4,833	**–**	–
Property, plant and equipment	14	**299**	127	**–**	–
Investments	15	**–**	–	**7,599**	5,675
		10,031	7,705	**7,599**	5,675
Current assets					
Inventories	16	**41**	78	**–**	–
Trade and other receivables	17	**1,784**	1,790	**331**	365
Cash and cash equivalents		**1,929**	1,399	**387**	78
		3,754	3,267	**718**	443
Total assets		**13,785**	10,972	**8,317**	6,118
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	20	**969**	914	**969**	914
Share premium		**1,432**	498	**1,432**	498
Merger reserve		**365**	365	**365**	365
Retained earnings		**3,514**	3,076	**1,363**	1,174
Share option reserve	22	**118**	121	**118**	121
Translation reserve		**128**	136	**–**	–
Total equity		**6,526**	5,110	**4,247**	3,072
Liabilities					
Non-current liabilities					
Trade and other payables	18	**666**	459	**666**	459
Borrowings	19	**325**	–	**325**	–
Deferred tax liability	9	**1,152**	901	**–**	–
Current liabilities					
Trade and other payables	18	**4,669**	4,313	**2,917**	2,587
Borrowings	19	**162**	–	**162**	–
Current tax payable		**285**	189	**–**	–
Total liabilities		**7,259**	5,862	**4,070**	3,046
Total liabilities and equity		**13,785**	10,972	**8,317**	6,118

The notes on pages 28 to 56 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 24 April 2015. They were signed on its behalf by

J P Pomeroy
Director

Company Registration No. 4578125

Consolidated Cash Flow Statement

For the year ended 31 December 2014

	2014 £'000	2013 £'000
Operating activities		
Profit before tax	**1,305**	1,523
Less taxation paid	**(122)**	(273)
Adjustment for:		
Financial income	**(6)**	(8)
Financial cost	**103**	68
Depreciation and amortisation	**868**	621
Share option expense	**13**	53
Foreign exchange adjustments arising from operations	**(3)**	14
Operating cash flows before movement in working capital	**2,158**	1,998
Increase in receivables	**(81)**	(120)
Decrease/(increase) in inventories	**37**	(15)
Increase in payables	**4**	259
Net cash generated from operating activities	**2,118**	2,122
Investing activities		
Interest received	**6**	7
Finance cost	**(2)**	–
Purchases of property, plant and equipment	**(259)**	(83)
Investment in development costs	**(814)**	(747)
Acquisition of subsidiaries net of cash acquired	**(718)**	(715)
Contingent consideration paid	**(550)**	(185)
Net cash used in investing activities	**(2,337)**	(1,723)
Financing activities		
Net proceeds from issue of share capital	**989**	51
Bank loan received	**500**	–
Bank loan repayments made	**(13)**	–
Dividends paid	**(753)**	(683)
Net cash generated from/(used in) by financing activities	**753**	(632)
Net increase/(decrease) in cash and cash equivalents	**534**	(233)
Cash and cash equivalents at beginning of year	**1,399**	1,643
Effect of foreign exchange rate changes	**(4)**	(11)
Cash and cash equivalents at end of year	**1,929**	1,399

The notes on pages 28 to 56 are an integral part of these consolidated financial statements.

Company Cash Flow Statement

As at 31 December 2014

	2014 £'000	2013 £'000
Operating activities		
Profit before tax	896	715
Less taxation paid	–	–
Adjustment for:		
Financial cost	103	68
Share option expense	13	53
Operating cash flows before movements in working capital	1,012	836
Decrease /(increase) in receivables	36	(334)
Increase in payables	123	1,214
Net cash generated from operating activities	1,171	1,716
Investing activities		
Finance cost	(2)	–
Investment in acquisitions	(1,063)	(832)
Contingent consideration paid	(550)	(185)
Net cash used in investing activities	(1,615)	(1,017)
Financing activities		
Net proceeds from issue of share capital	989	51
Bank loan received	500	–
Bank loan repayments made	(13)	–
Dividends paid	(723)	(683)
Net cash from/(used) in financing activities	753	(632)
Net increase in cash and cash equivalents	309	67
Cash and cash equivalents at beginning of year	78	11
Cash and cash equivalents at end of year	387	78

The notes on pages 28 to 56 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the year ended 31 December 2014

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 22.

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 the recoverable amount. 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 23.

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 at each reporting date. See note 23.

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.

1. Accounting policies continued

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. The carrying value of capitalised development is reviewed for impairment at each accounting period end. See note 13.

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 1.7, 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, including the assumptions to be used in the capital asset pricing model, 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 13. In addition, note 24 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 prepare budgets and cash flow forecasts to ensure that the Group can meet its liabilities as they fall due.

The Group has considerable financial resources together with well established relationships with a number of customers and suppliers across different geographic areas. In addition a substantial proportion of its revenue is recurring.

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 the parent company and all of its subsidiaries as of 31 December 2014. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

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.

Notes to the Financial Statements continued

For the year ended 31 December 2014

1. Accounting policies continued

Licensing (excluding SaaS)

The Group licences 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.

Third party revenues

The Group sells, predominantly as principal, 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.

Tokens

The Group sells tokens to access certain services within the business. Tokens are normally bought in bundles and can be used over time. Tokens currently do not have a fixed expiry period. Revenue is only recognised on use.

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 reporting date using a Black-Scholes model and the necessary movement in the liability is recognised through the income statement. The liability is included as appropriate in current and 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 timeframe.

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 profit or loss.

1. Accounting policies continued

1.6 Long term incentive plan – capped cash bonus

The LTIP awards granted in 2014 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.

1.7 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 (ie 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.

1.8 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.

1.9 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 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.

1.10 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.

Notes to the Financial Statements continued

For the year ended 31 December 2014

1. Accounting policies continued

1.11 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 and FileFinder Anywhere 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, the Browser version of FileFinder 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.

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
Brand and IP	15 years
Developed technology	6–11.25 years
Contractual customer relationships	1.25 years
Non-contractual customer relationships	10–10.25 years

1.12 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

1.13 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.

1. Accounting policies continued

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.

1.14 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 and movements in fair value are recognised in the profit or loss. The Group's 'financial liabilities measured at amortised cost' comprise trade payables, intercompany trading balances (in relation to Company accounts), bank loans and accruals.

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

1.15 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.

1.16 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 on a straight line basis over the lease term. The Group does not act as a lessor.

1.17 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.

1.18 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.

1.19 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.

Notes to the Financial Statements continued

For the year ended 31 December 2014

1. Accounting policies continued

1.20 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.

1.21 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.

1.22 Defined contribution pension scheme

The pension costs charged in profit or loss represent the contributions payable by the Group during the year.

1.23 New accounting standards

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

IFRS 10 'Consolidated Financial Statements' (IFRS 10)

IFRS 10 supersedes IAS 27 'Consolidated and Separate Financial Statements' (IAS 27) and SIC 12 'Consolidation-Special Purpose Entities'. IFRS 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the Group's investees are considered to be subsidiaries and therefore to change the scope of consolidation. The requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary are unchanged.

Management has reviewed its control assessments in accordance with IFRS 10 and has concluded that there is no effect on the classification (as subsidiaries) of any of the Group's investees held during the period or comparative periods covered by these financial statements.

IFRS 12 'Disclosure of Interests in Other Entities' (IFRS 12)

IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities. Note 15 illustrates the application of IFRS 12 in the current year.

1. Accounting policies continued

(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 15	Revenue from contracts with customers	1 January 2017

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

	Note	Adjusted operating profits 2014 £'000	Acquisition related items 2014* £'000	2014 £'000	Adjusted operating profits 2013 £'000	Acquisition related items 2013* £'000	2013 £'000
Revenue		8,625	–	8,625	8,101	–	8,101
Cost of sales		(1,108)	–	(1,108)	(957)	–	(957)
Gross profit		7,517	–	7,517	7,144	–	7,144
Administrative expenses		(5,697)	(418)	(6,115)	(5,351)	(210)	(5,561)
Results from operating activities		1,820	(418)	1,402	1,793	(210)	1,583
Financial income		6	–	6	8	–	8
Financial cost		(2)	(101)	(103)	–	(68)	(68)
Profit before tax		1,824	(519)	1,305	1,801	(278)	1,523
Tax expense		(240)	80	(160)	(346)	54	(292)
Profit for the year		1,584	(439)	1,145	1,455	(224)	1,231
Other comprehensive income net of tax:							
Currency translation differences		(8)	–	(8)	(16)	–	(16)
Total comprehensive income for the year net of tax		1,576	(439)	1,137	1,439	(224)	1,215
Earnings per share – from continuing activities							
Basic	10	8.56p		6.18p	7.99p		6.76p
Diluted	10	8.23p		5.95p	7.70p		6.51p

* See accounts note 5.

Notes to the Financial Statements continued

For the year ended 31 December 2014

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 2014	Dillistone £'000	Voyager £'000	Interdivisional revenue £'000	Central £'000	Total £'000
Recurring income	3,186	2,743	–	–	5,929
Non-recurring income	1,371	914	–	–	2,285
Third party revenues	–	411	–	–	411
Segment revenue	4,557	4,068	–	–	8,625
Segment EBITDA	1,597	802		3	2,402
Depreciation and amortisation expense	(429)	(153)		–	(582)
Segment result	1,168	649		3	1,820
Acquisition related amortisation	–	–		(286)	(286)
Acquisition related charges	–	–		(132)	(132)
Operating profit/(loss)	1,168	649		(415)	1,402
Financial income	5	1		–	6
Loan interest				(2)	(2)
Acquisition related interest expenses				(101)	(101)
Income tax expense					(160)
Profit after tax					1,145
Additions of non-current assets	720	353		–	1,073
Segment assets	2,546	1,107		400	4,053
Intangibles and goodwill	2,003	884		6,845	9,732
Total	4,549	1,991		7,245	13,785
Segment liabilities	3,097	1,376		2,796	7,269

3. Segment reporting continued

For the year ended 31 December 2013	Dillistone £'000	Voyager £'000	Interdivisional 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

Products and services

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

Revenue

	2014 £'000	2013 £'000
Recurring income	**5,929**	5,271
Non-recurring income	**2,285**	2,428
Third party revenues	**411**	402
	8,625	8,101

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.

Notes to the Financial Statements continued

For the year ended 31 December 2014

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

	2014 £'000	2013 £'000
UK	**6,859**	6,188
US	**1,198**	1,228
Australia	**568**	685
	8,625	8,101

Non-current assets by geographical location

	2014 £'000	2013 £'000
UK	**10,025**	7,698
US	**4**	5
Australia	**2**	2
	10,031	7,705

5. Acquisition related items

	2014 £'000	2013 £'000
Included within administrative expenses:		
Estimated change in fair value of contingent consideration (note 23)	**(9)**	(57)
Amortisation of acquisition intangibles	**286**	172
Fees relating to the acquisition of ISV/FCP (note 23)	**141**	95
	418	210
Included within finance cost:		
Unwinding of discount on contingent consideration (note 8)	**101**	68
	519	278

6. Profits from operating activities

	2014 £'000	2013 £'000
Profits from operating activities is stated after charging:		
Depreciation	**94**	93
Amortisation	**773**	528
Loss on foreign exchange transactions	**3**	2
Operating lease rentals – land and buildings	**207**	176
Money purchase pension contributions	**179**	97
Fees receivable by the Group auditors:		
Audit of financial statements	**24**	22
Other services:		
Audit of accounts of subsidiary of the Company	**50**	43
Other services relating to taxation	**61**	34
All other services	**45**	33

7. Employees

The average number of employees was:

	2014	2013
Operations	96	87
Management	7	7
Employee numbers	103	94

Their aggregate remuneration comprised:

	2014 £'000	2013 £'000
Wages and salaries	4,089	3,713
Social security costs	437	410
Pension costs	179	97
Share-based payments charged and share-based LTIP	(33)	102
LTIP non share-based	(40)	84
	4,632	4,406

The aggregate remuneration includes salary cost and Directors' remuneration totalling £792,000 (2013: £724,000) that have been capitalised in intangible assets.

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

	2014 £'000	2013 £'000
Wages and salaries	662	699
Social security costs	74	83
Pension costs	51	36
Share-based payments charged and share-based LTIP	(49)	80
LTIP non share-based	(40)	84
	698	982

Details of Directors' emoluments, share options and pension entitlements are given in the Report to the Shareholders on Directors' Remuneration on pages 16 to 17.

8. Financial income

	2014 £'000	2013 £'000
Interest receivable	6	8
Finance cost on bank loan	(2)	–
Unwinding of discount on contingent consideration	(101)	(68)
	(97)	(60)

Notes to the Financial Statements continued

For the year ended 31 December 2014

9. Tax expense

	2014 £'000	2013 £'000
Current tax	200	308
Deferred tax	40	38
Deferred tax re acquisition intangibles	(80)	(54)
Income tax expense for the year	160	292

Factors affecting the tax charge for the year

	2014	2013
Profit before tax	1,305	1,523
UK rate of taxation	21.5%	23.25%
Profit before tax multiplied by the UK rate of taxation	281	354
Effects of:		
Overseas tax rates	84	49
Impact of deferred tax not provided	–	(15)
Enhanced R&D relief	(99)	(112)
Disallowed expenses	75	103
Rate change impact on deferred tax	(37)	(27)
Prior year adjustments	(144)	(60)
Tax expense	160	292

Deferred tax provided in the financial statements is as follows:

	Group			Company	
	2014 £'000	Movement £'000	2013 £'000	2014 £'000	2013 £'000
Accelerated intangible amortisation	473	40	433	–	–
Provisions	(7)	2	(9)	–	–
Acquisition intangibles	686	209	477	–	–
	1,152	251	901	–	–

The UK corporation tax rate in the year fell from 23% to 21% giving an effective rate for the year of 21.5%. The tax rate is expected to fall again to 20% in April 2015. Where deferred tax is provided in relation to the UK it has been provided at 20%. 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, Voyager Software, FCP and ISV. The release of prior year provisions relate in part to the agreement of the prior years' tax position of the branch operation in German. The Group has gross tax losses and temporary timing differences of £292,000 (2013: £227,000) for which no deferred tax asset has been recognised.

10. Earnings per share

	2014 Using adjusted operating profit	2014	2013 Using adjusted operating profit	2013
Profit attributable to ordinary shareholders	£1,584,000	£1,145,000	£1,455,000	£1,231,000
Weighted average number of shares	18,512,594	18,512,594	18,211,321	18,211,321
Basic earnings per share	8.56 pence	6.18 pence	7.99 pence	6.76 pence
Weighted average number of shares after dilution	19,243,357	19,243,357	18,902,055	18,902,055
Fully diluted earnings per share	8.23 pence	5.95 pence	7.70 pence	6.51 pence

Reconciliation of basic to diluted average number of shares	2014	2013
Weighted average number of shares (basic)	18,512,594	18,211,321
Effect of dilutive potential ordinary shares – employee share plans	730,763	690,734
Weighted average number of shares after dilution	19,243,357	18,902,055

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 £896,000 (2013: £715,000).

12. Goodwill

Group	Goodwill £'000
Cost	
At 1 January 2013	2,490
Additions	255
At 31 December 2013	2,745
Additions	670
At 31 December 2014	**3,415**
Carrying amount	
At 31 December 2014	**3,415**
At 31 December 2013	2,745

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 cash generating units and rates used by comparable companies. The pre-tax discount rate used to calculate value-in-use is in a range of 12% to 19.4% (2013: 12%) and for Voyager consolidated a rate of 19.4% has been used. 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% (2013: 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
ISV	–	670	–	670
	2,745	670	–	3,415

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 36%. Alternatively, cash flows would need to fall by 55%. For FCP, cash flows would need to reduce by over 90% to reduce the headroom to £nil. For ISV cash flows would need to fall by 70% to reduce the headroom 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 2014

13. Other intangible assets

Group	Development costs £'000	Acquisition intangibles £'000	Total £'000
Cost			
At 1 January 2013	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
Additions through acquisition at fair value	–	1,443	1,443
Additions	814	–	814
At 31 December 2014	**4,629**	**4,172**	**8,801**
Amortisation			
At 1 January 2013	899	284	1,183
Charge for the year	356	172	528
At 31 December 2013	1,255	456	1,711
Charge for the year	487	286	773
At 31 December 2014	**1,742**	**742**	**2,484**
Carrying amount			
At 31 December 2014	**2,887**	**3,430**	**6,317**
At 31 December 2013	2,560	2,273	4,833

Acquisition intangibles can be summarised as follows:

	Brand £'000	Developed technology £'000	Brand and IP £'000	Contractual and non-contractual relationship £'000	Total £'000
Cost					
At 1 January 2014	165	388	–	1,720	2,273
Additions	–	–	614	829	1,443
Amortisation	(13)	(53)	(10)	(210)	(286)
At 31 December 2014	**152**	**335**	**604**	**2,339**	**3,430**

Intangible assets under development are reviewed each reporting period for impairment prior to amortisation. Forecasts of future revenue are prepared and these are discounted and compared to the carrying value. Sensitivities are carried out including applying differing growth and attrition rates as well as alternative discounts rates.

14. Property, plant and equipment

Group	Land and buildings £'000	Office & computer equipment £'000	Fixtures and fittings £'000	Motor Vehicles £'000	Total £'000
Cost					
At 1 January 2013	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
Currency impact	–	2	2	–	4
Additions	185	66	8	–	259
Additions by acquisition	–	4	1	2	7
Disposals	(166)	–	–	–	(166)
At 31 December 2014	**185**	**675**	**150**	**2**	**1,012**
Depreciation					
At 1 January 2013	164	440	113	–	717
Currency impact	–	(4)	–	–	(4)
Charge for the year	1	73	19	–	93
Eliminated on disposal	–	(25)	–	–	(25)
At 31 December 2013	165	484	132	–	781
Currency impact	–	2	2	–	4
Charge for year	7	83	3	1	94
Eliminated on disposal	(166)	–	–	–	(166)
At 31 December 2014	**6**	**569**	**137**	**1**	**713**
Carrying amount					
At 31 December 2014	**179**	**106**	**13**	**1**	**299**
At 31 December 2013	1	119	7	–	127

15. Non-current asset investments

Company	Investments in subsidiaries £'000
Cost	
At 1 January 2013	4,111
Additions	1,564
At 31 December 2013	5,675
Additions	1,924
At 31 December 2014	**7,599**

Notes to the Financial Statements continued

For the year ended 31 December 2014

15. Non-current asset investments continued

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
ISV Software Limited	Provision of software services and related consultancy services	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

16. Inventories

	Group		Company	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Licences for resale	**41**	78	**–**	–

17. Trade and other receivables

	Group		Company	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Trade and other receivables	**1,531**	1,565	**–**	–
Group receivables	**–**	–	**318**	354
Other current assets	**47**	61	**–**	7
Prepayments and accrued income	**206**	164	**13**	4
	1,784	1,790	**331**	365

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:

	2014 £'000	2013 £'000
At start of year	**90**	83
Movement in the year	**(27)**	7
At the year end	**63**	90

17. Trade and other receivables continued

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

	2014 £'000	2013 £'000
Current	1,317	1,272
Past due date:		
31-60 days overdue	88	121
More than 60 days overdue	126	172
Total	1,531	1,565

18. Trade and other payables

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Current liabilities				
Trade and other payables	594	612	42	53
Group payables	–	–	1,971	1,623
Deferred income	2,711	2,475	–	–
Accruals	857	660	397	345
Contingent consideration	507	566	507	566
	4,669	4,313	2,917	2,587
Non-current liabilities				
Contingent consideration	666	352	666	352
Cash settled share-based provision	–	107	–	107
	666	459	666	459

Contingent consideration is valued at fair value. The total amounts included are as follows:

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
In current liabilities	507	566	507	566
In non-current liabilities	666	352	666	352
	1,173	918	1,173	918

Further details of the contingent consideration are given in note 23.

Notes to the Financial Statements continued
For the year ended 31 December 2014

19. Borrowings

Borrowings at amortised cost	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Current bank borrowings	162	–	162	–
Non current bank borrowings	325	–	325	–
Total bank borrowings	487	–	487	–

The Directors consider that the fair value of borrowings approximates to the carrying value.

The borrowings consist of a bank loan repayable over 3 years from HSBC Bank plc secured by a fixed and floating charge over the assets of the Group and is supported by a cross guarantee between the Company and the Group's principal subsidiaries. The loan was to provide part funding for the acquisition of ISV. The loan carries interest at 2.75% over UK base rate.

The loan includes an option for early repayment at any time during the 3 year period. An early repayment fee of 1% of the amount prepaid must be made if the option is exercised. Management have review the term of the prepayment option and deem it to be closely related to the underlying debt instrument and hence has not been separated from the host instrument.

The carrying amount of the bank borrowings is considered to be a reasonable approximation of the fair value of the debt.

20. Share capital

	2014 £'000	2013 £'000
Allotted, called up and fully paid		
Ordinary shares of 5 pence each	969	914

On 29 September 2014 526,316 new ordinary shares of 5p were placed at a price of 95p raising £500,000 (before expenses). These monies were raised to finance the acquisition of ISV.

On 3 October 2014 a further £250,000 was raised from the placing of 263,158 shares at 95p and additional £250,000 raised by a similar placing on 7 November 2014.

Share options totalling 59,794 were exercised by employees in the period at an exercise price of 77p.

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

	2014	2013
Shares issued and fully paid		
Beginning of the year	18,275,120	18,205,190
Shares issued on placing	1,052,632	–
Shares issued on exercise of options	59,794	69,930
Shares issued and fully paid	19,387,546	18,275,120

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

At 31 December 2014, the Group had future total commitments under non-cancellable operating leases as follows:

	2014 £'000	2013 £'000
Commitments payable:	682	202
Within one year	229	154
Between two and five years	453	48

22. 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.

There was one grant of options in 2014. The weighted average share price of all grants in 2014 was 97p. 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 December 2014	245,000	97.00p	97.00p	30%	3.3 years	10%	1.00%	4.0%

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

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 November 2013	20,000	115.00p	115.00p	30%	3.0 years	0%	0.86%	3.0%

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

	2014		2013	
	No of options*	**WAEP***	No of options*	WAEP*
Outstanding at beginning of year	**754,355**	**74.74**	743,355	74.09
Granted during year	**245,000**	**97.00**	58,000	91.74
Exercised during year	**(59,794)**	**77.00**	–	–
Forfeited during year	**(9,000)**	**78.94**	(47,000)	85.49
Outstanding at the end of the year	**930,561**	**80.41**	754,355	74.74
Exercisable at the year end	**413,739**	**72.95**	62,739	59.20

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

In the year Julie Pomeroy exercised 25,794 options at an exercise price of 77p. The market value of the shares at the date of exercise was 95p. The Company's mid-market share price on 31 December 2014 was 97.0p. The Company's mid-market share price on 31 December 2014 was 97.0p.

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 expense charged takes into account the likelihood of performance targets being met. The employee expense for the year was £13,000 (2013: £53,000). The reduction in charge reflects the current expectation that share options with performance conditions will not fully vest.

Notes to the Financial Statements continued

For the year ended 31 December 2014

22. Share options continued

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	13/01/2021	30,000	58.33
EMI	21/09/2011	21/09/2014	20/09/2021	303,000	77.00
Unapproved	21/09/2011	21/09/2014	20/09/2021	18,000	77.00
EMI	29/05/2012	29/05/2015	28/05/2022	220,822	73.00
EMI	08/07/2013	08/07/2016	07/07/2023	31,000	79.50
EMI	25/11/2013	25/11/2016	24/11/2023	20,000	115.00
Unapproved	08/12/2014	08/12/2017	08/12/2024	10,000	97.00
EMI	08/12/2014	08/12/2017	08/12/2024	235,000	97.00
				930,561	

59,794 share options were exercised during the year at a weighted average exercise price of 77.0p and the weighted average share price at the date of exercise was 95.8p. The weighted average remaining contractual life of options at 31 December 2014 was 7.5 years (2013: 8.5 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 2014 and adjusted for the probability of the performance conditions being obtained.

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

* Adjusted for the 2 for 1 bonus issue.

The phantom options 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 a result of rise in the Company's share price which meant that the awards could exceed one third of salary, 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. £135,000 was paid out in respect of these Awards in 2014.

Awards from 2013 onwards under a long term incentive plan take the form of a cash bonus of up to one third annual salary with appropriate performance conditions in place and are not share-based.

The total release charged in respect of all LTIP plans for the year was £(86,000) (2013: charge £133,000). In addition £135,000 of the 2011 LTIP plan was paid out in the year and this payment has been set against salaries & wages and social security. There is a release of £46,000 in respect of the LTIP schemes which are share-based and require separate disclosure under IFRS 2. The total liability carried forward was £32,000 (2013: £252,000) and is included in current liabilities.

23. Acquisitions

On 29 September 2014 the Group signed an agreement to acquire the entire share capital of ISV Software Limited ('ISV') for an estimated consideration before fees of £1.924m, which was satisfied as detailed below. This was part of the Group's strategy to broaden our offering to the recruitment sector. The acquisition was completed on 3 October 2015.

ISV (www.isvgroup.com) is a UK based supplier of training and testing services, primarily to the recruitment industry. ISV works with 9 of the 10 largest recruitment agencies in the UK (by office numbers) and 7 of the 10 largest by revenue. It offers over 200 published materials/tests covering many business sectors and over 500,000 tests were carried out in 2014 for over 350 clients.

For the year ended 31 December 2013 the unaudited accounts of ISV showed profit before tax and profit after tax of £162,000 and £159,000 respectively on revenues of £750,000. These accounts also showed net assets of £256,000 as at 31 December 2013. Following the acquisition the revenues and profits have been restated to reflect accounting for deferred income on annual contracts and the income in respect of token sales. ISV 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	14	(7)	–	7
Intangible assets	–	–	1,443	1,443
Current assets				
Trade and other receivables	105	(10)	–	95
Cash and cash equivalents	345	–	–	345
Total assets	**464**	**(17)**	**1,443**	**1,890**
Liabilities				
Trade and other payables	(303)	(38)	–	(341)
Tax liability	–	(7)	–	(7)
Deferred tax liability	–	–	(289)	(289)
Net assets acquired	**161**	**(62)**	**1,154**	**1,253**
Goodwill				671
				1,924
Satisfied by				
Initial Cash consideration				850
Deferred cash consideration (discounted)				148
Cash consideration in relation to surplus working capital				213
Contingent consideration				713
				1,924

	£'000
Consideration transferred	
Amount settled in cash consideration in period	1,063
Cash and cash equivalents acquired	(345)
Net cash outflow on acquisition	718
Acquisition costs charged to expenses	141
Net cash paid relating to acquisition	859

Notes to the Financial Statements continued

For the year ended 31 December 2014

23. Acquisitions continued

The total consideration of £1,924,000 net of cash acquired of £345,000 was £1,579,000. The fair value adjustment of £62,000 relates mainly to the writing down of property, plant and equipment to their fair value and adopting more closely the accounting policies adopted by the Group. Fees of £141,000 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 £1,443,000 made up as follows:

	£'000	Estimated life
Intangible assets		
Brand/IP	614	15 years
Customer relationships	829	10 years
	1,443	

Goodwill of £671,000 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 operations with Dillistone Group companies.

From the date of acquisition to 31 December 2014, the acquired companies contributed £195,000 to revenue and £18,000 to profit before taxation. In the last financial year, being the year ended 31 December 2013, the acquired companies made a profit before taxation of £162,000. However, as no audited accounts had previously been required and changes in the accounting policies including those for deferred income on annual contracts and token sales, pro-forma profit or loss of the combined entity for the complete 2014 reporting period cannot readily be determined.

As part of the acquisition, deferred consideration of £150,000 is payable in January 2015. The Group also 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 £213,000 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:

- 30% of net revenues in the three month period to 31 December 2014.
- 30% of net revenues in the year to 31 December 2015 less £15,000.
- 30% of net revenues in the year to 31 December 2016 less £15,000.
- 30% of net revenues in the nine month period to 30 September 2017 less £25,000.

The fair value of the contingent consideration has been calculated based on the information available at the time of the acquisition. The contingent consideration as at acquisition has been discounted at an annual rate of 3.48% with a resulting charge in the 2014 accounts of £6,000. The value of the contingent consideration at 31 December 2014 was £713,000. The maximum total consideration, including contingent consideration, payable is capped at £2,500,000.

Contingent consideration payable in respect of earlier acquisitions

As part of the acquisition of Voyager Software in 2011, the Group agreed to pay additional contingent consideration. During 2014 it made the final payment due of £129,000. A £2,000 discount was charged in 2014.

As part of the acquisition of FCP, the Group agreed to pay the vendors contingent consideration over the period to 31 March 2015. During 2014, contingent consideration of £421,000 was paid. At the year end the Group had a liability for contingent consideration calculated as follows:

- 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.

In the 2014 accounts, the amounts payable under the contingent consideration have been reduced by £9,000 based on the revenues for 2014 and on the estimated revenue for 2015. This contingent consideration had originally been discounted at 16.99% but following the acquisition of ISV and the availability of bank finance the rate has been reduced to 3.48%. The discount charged to the profit and loss account in 2014 totalled £93,000.

24. Financial instruments

The Group uses various financial instruments; these include cash, bank deposits, bank loans 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.

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

(i) Interest rate risk

The Group is exposed to interest rate risk on its floating rate borrowings and its financial assets. The interest rate profile of the Group's financial assets at 31 December 2014 was:

	Group		Company	
At 31 December 2014	Non interest bearing financial assets £'000	Floating rate financial assets £'000	Non interest bearing financial assets £'000	Floating rate financial assets £'000
Trade and other receivables (current assets)	1,531	–	318	–
Cash and cash equivalents	–	1,929	–	387
Total	1,531	1,929	318	387

The interest rate profile of the Group's financial assets at 31 December 2013 was:

	Group		Company	
At 31 December 2013	Non interest bearing financial assets £'000	Floating rate financial assets £'000	Non interest bearing financial assets £'000	Floating rate financial assets £'000
Trade and other receivables (current assets)	1,565	–	354	–
Cash and cash equivalents	–	1,399	–	78
Total	1,565	1,399	354	78

Notes to the Financial Statements continued

For the year ended 31 December 2014

24. Financial instruments continued

The table below shows the Group's financial liabilities split by those bearing interest at floating rates and those that are non interest bearing.

	Group		Company	
31 December 2014	**Non interest bearing financial liabilities £'000**	**Floating rate financial liabilities £'000**	**Non interest bearing financial liabilities £'000**	**Floating rate financial liabilities £'000**
Trade and other payables (current liabilities)	**4,162**	**–**	**2,410**	**–**
Trade and other payables (non-current liabilities)	**–**	**–**	**–**	**–**
Bank borrowings	**–**	**487**	**–**	**487**
Contingent consideration (current liabilities)	**507**	**–**	**507**	**–**
Contingent consideration (non-current liabilities)	**666**	**–**	**666**	**–**
	5,335	**487**	**3,583**	**487**

31 December 2013	Non interest bearing financial liabilities £'000	Floating rate financial liabilities £'000	Non interest bearing financial liabilities £'000	Floating rate financial liabilities £'000
Trade and other payables (current liabilities)	3,747	–	2,021	–
Trade and other payables (non-current liabilities)	107	–	107	–
Bank borrowings	–	–	–	–
Contingent consideration (current liabilities)	566	–	566	–
Contingent consideration (non-current liabilities)	352	–	352	–
	4,772	–	3,046	–

The benchmarks for interest rates on floating rate financial assets and financial liabilities are bank base rates for the currencies in which the assets are held. Sensitivities of movements in interest rates have been considered by Directors and reasonably possible movements in interest rates are not considered to have a material impact on future Group profits or equity.

(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	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Trade and other receivables (current assets)	**1,531**	1,565	**318**	354
Cash and cash equivalents	**1,929**	1,399	**387**	78
Total	**3,460**	2,964	**705**	432

24. Financial instruments continued

(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 2014, the Group and Company's financial liabilities (being trade and other payables and deferred income, payroll taxes, VAT or similar taxes and bank borrowings) have contractual cash flows as summarised below:

Group

31 December 2014	Carrying amount £'000	< 1 year £'000	1–2 years £'000	2–5 years £'000
Trade and other payables (current liabilities)	**4,669**	**4,669**	**–**	**–**
Trade and other payables (non-current liabilities)	**666**	**–**	**245**	**421**
Bank borrowings	**487**	**162**	**167**	**158**
	5,822	**4,831**	**412**	**579**

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

Company

31 December 2014	Carrying amount £'000	< 1 year £'000	1–2 years £'000	2–5 years £'000
Trade and other payables (current liabilities)	**2,917**	**2,917**	**–**	**–**
Trade and other payables (non-current liabilities)	**666**	**–**	**245**	**421**
Bank borrowings	**487**	**162**	**167**	**158**
	4,070	**3,079**	**412**	**579**

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	2,587	424	35

The Group would normally expect that sufficient cash is generated in the operating cycle to meet contractual cash flows as disclosed above. In addition the Group has significant cash balances as at the year end to minimise any liquidity risk.

(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.

Notes to the Financial Statements continued

For the year ended 31 December 2014

24. Financial instruments continued

At the year end, the Group had assets totalling £551,000 and liabilities totalling £356,000 denominated in Euros (2013: assets totalling £1,322,000 and liabilities totalling £518,000), assets totalling £1,537,000 and liabilities totalling £1,181,000 denominated in US Dollars (2013: assets totalling £602,000 and liabilities totalling £573,000) and assets totalling £370,000 and liabilities totalling £319,000 denominated in Australian Dollars (2013: assets totalling £353,000 and liabilities totalling £259,000). If each of the exchange rates weakened by 5%, the impact on the income statement would as follows:

	Group	
	2014 £'000	2013 £'000
Euros	5	2
US Dollars	14	14
Australian Dollars	4	9
	23	25

At the year end, the Company had liabilities totalling £99,000 denominated in Euros (2013: liabilities totalling £183,000), assets totalling £124,000 denominated in US Dollars (2013: assets totalling £225,000) and assets totalling £61,000 denominated in Australian Dollars (2013: assets totalling £22,000).

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, sell assets or take on bank debt. The decision to take on some element of debt gives the Group additional flexibility in its capital structure and enables it to lower its cost of capital.

The Group considers its capital to include share capital, share premium, merger reserve, translation reserve, share option reserve and retained earnings. Net cash comprises borrowings less cash and cash equivalents.

	Note	2014 £'000	2013 £'000
Total borrowings	19	487	–
Less cash or cash equivalents		(1,929)	(1,399)
Net cash		(1,442)	(1,399)
Total equity		6,516	5,110
Total capital gearing ratio		0%	0%

24. 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	
	2014 £'000s	2013 £'000s	2014 £'000s	2013 £'000s
Loans and receivables				
Cash and cash equivalents	**1,929**	1,399	**387**	78
Trade and other receivables	**1,531**	1,565	**318**	361
	3,460	2,964	**705**	439
Financial liabilities held at amortised cost				
Trade and other payables	**4,162**	3,854	**2,410**	2,128
Borrowings	**487**	–	**487**	–
Financial liabilities held at fair value				
Contingent consideration	**1,173**	918	**1,173**	918
	5,822	4,772	**4,070**	3,046

25. 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 2014 and 31 December 2013:

	2014 £'000 Level 3	2013 £'000 Level 3
Contingent consideration	**1,173**	918

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 Level 3 are described below:

Contingent consideration (Level 3)

The fair value of contingent consideration relates to the acquisitions of FCP Internet and ISV Software (see note 23) and is estimated using a present value technique. The contingent consideration of £1,173,000 is included at fair value which is mainly based on actual, budget or forecast revenues prepared by the finance team. The contingent consideration is discounted.

The discount rate used to discount the contingent consideration at 31 December 2014 is 3.48% and is based on an after tax estimated of the Group's current borrowing rate.

The reconciliation of the carrying amounts of financial instruments classified within Level 3 is as follows:

	2014 £'000	2013 £'000
At start of year	**(918)**	(360)
Acquired through business combination	**(713)**	(733)
Paid in year	**550**	185
Movement in fair value recognised in profit or loss under finance costs	**(101)**	(68)
Movement in fair value recognised in profit or loss under admin costs	**9**	58
At the year end	**(1,173)**	(918)

Notes to the Financial Statements continued

For the year ended 31 December 2014

26. 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'.

27. Related party transactions

Group

The Directors received dividends paid by the Company of £313,000 (2013: £318,000).

In the year Julie Pomeroy exercised 25,794 options at an exercise price of 77p. The market value of the shares at the date of exercise was 95p.

During the year, Mike Love bought 252,632 shares at a price of 95p. In addition, Jason Starr also bought 10,000 shares at the same price.

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 £96,000 (2013: £62,000) and a dividend of £111,000 from its subsidiary company Dillistone Systems (US) Inc (2013: £210,000). At the year end Dillistone Systems (US) Inc owed £122,000 (2013: owed by £209,000) to the Company.

During the current year Dillistone Systems Limited paid a dividend of £1,000,000 (2013: £1,000,000) to Dillistone Group Plc and a management charge of £237,000 (2013: £178,000). At the year end Dillistone Systems Limited was owed £1,294,000 (2013: £1,588,000).

The Company received a management charge during the year from Dillistone Systems (Australia) Pty Limited of £34,000 (2013: £55,000) and at the year end was owed £62,000 (2013: owed by the Company £28,000).

Voyager Software paid a management charge of £144,000 (2013: £144,000) and owed the Company £115,000 at the year end (2013: £29,000). Woodcote Software owed the Company £13,000 at the year end (2013: £13,000).

FCP Internet Limited paid a management charge of £71,000 and was owed by the Company £365,000 at the year end (2013: owed to the Company £67,000).

A management charge of £15,000 was received from ISV Software and at the year end the Company owed ISV £200,000 (2013: nil).

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

28. Dividends

The dividends paid in 2014 and 2013 were £723,000 (3.90p per share) and £683,000 (3.75p per share). A final dividend in respect of the year ended 31 December 2014 of 2.7p per share will be paid on 24 June 2015. 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 – Finance Director
A F Milne – Director of Support Services

Secretary
J P Pomeroy

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