DSG
Dillistone Group Plc

Annual Report and Accounts
for the year ended **31 December 2015**

Stock code: **DSG**

Empowering recruitment globally through technology

Welcome to the

Dillistone
Annual Report 2015

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.

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Investor relations website

Visit our investor relations website at **www.dillistonegroup.com** for further information about Dillistone Group Plc.

Look out for the following icons throughout this report:

Read further within the report...

Highlights

Highlights for the year

- Revenues up 9% from 2014 to £9.44m
- Record level of recurring revenues of £6.61m, up 11% from 2014
- Recurring revenues, representing 70% of Group revenue, covered 100% of administrative expenses before acquisition related costs
- Profit after tax for the year up 6% to £1.21m
- Basic earnings per share increased to 6.20p
- Final dividend of 2.75p per share recommended, making total dividend for the year of 4.1p (a yield of 5% on a share price of 80.5p)
- Cash funds of £1.60m (2014: £1.93m) after acquisition related payments of £0.67m. Bank borrowings total of £0.33m (2014: £0.49m)
- Dillistone Systems division – further product investment leading to increase in client retention rate, new sales and revenues
- Voyager Software division – launch of cloud hosted version of Infinity; launch of integration of ISV FastPath and Infinity; and launch of version 6 of Evolve

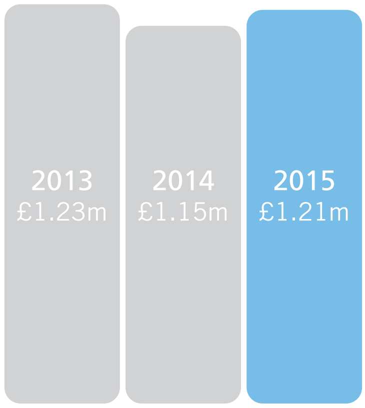
Post period end

- Strong first quarter – FileFinder Anywhere new client orders up over 70% and Voyager Software division orders up circa 50%
- Launch of FileFinder Anywhere Essentials in March 2016 – the only truly browser based product from a mainstream supplier to the executive search market
- New product launch expected in Voyager Software division in 2016

Read more on our performance
on **pages 06 to 13**

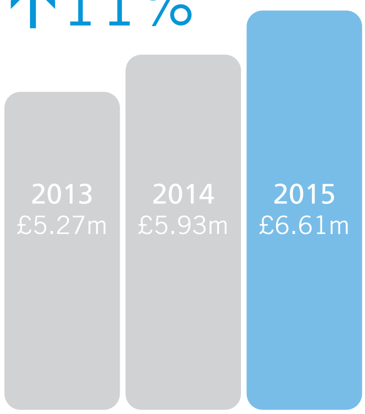
Profit after tax

↑6%



Recurring revenues

↑11%



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

"The Group has seen record levels of revenue and recurring revenue in 2015. It has continued to invest strongly in its businesses to ensure its clients remain at the forefront of technology, paving the way for continued success in future years."

"This represents our fourth successive year on year increase in the dividend, in line with our progressive dividend policy, illustrating the Board's confidence in the future prospects of the Group, which has been reinforced by an excellent order book in the first quarter."

Dr Mike Love
Non-Executive Chairman

Look out for the following definitions throughout this report:

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.

Adjusted EBITDA is adjusted operating profit with depreciation and amortisation added back.

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.
2015	Voyager Software division – launch of cloud hosted version of Infinity; launch of integration of ISV FastPath and Infinity; and launch of version 6 of Evolve.

Read more on Voyager Infinity and ISV FastPath on **pages 05 and 14**

"FileFinder gives us the ability to support our core business regardless of the local technology infrastructure. A multi-platform solution is a first for executive search software and we are delighted to be able to implement this. To TRANSEARCH, Dillistone represents unparalleled support, a partner that understands our business, and provides an ever evolving software solution – which is the bedrock of our 16 year relationship."

Celeste Whatley
Chief Operating Officer for TRANSEARCH International

03 Strategic Report

Dillistone Group at a Glance

Dillistone Group Plc is a global leader in the supply of technology solutions and services to the recruitment industry. Operating across 60 countries, working with over 2,000 firms, we are made up of two divisions.

Dillistone Systems
Dillistone.com

Voyager
RECRUITMENT SOFTWARE
YOUR BEST CONNECTION

Dillistone Systems division

Dillistone Systems is a leading global supplier of technology and services to executive search firms and to in-house search teams at major corporations and not-for-profit organisations. The Division's principal product is the FileFinder Anywhere suite, which is typically delivered from the cloud via a range of Apps. The Division is headquartered in the UK, but has offices in the United States, Australia and Germany 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 division products

FileFinder is designed specifically for the executive recruiting market with FileFinder Anywhere being the latest generation of the suite. FileFinder Anywhere is available in two forms – Essentials and Premium.

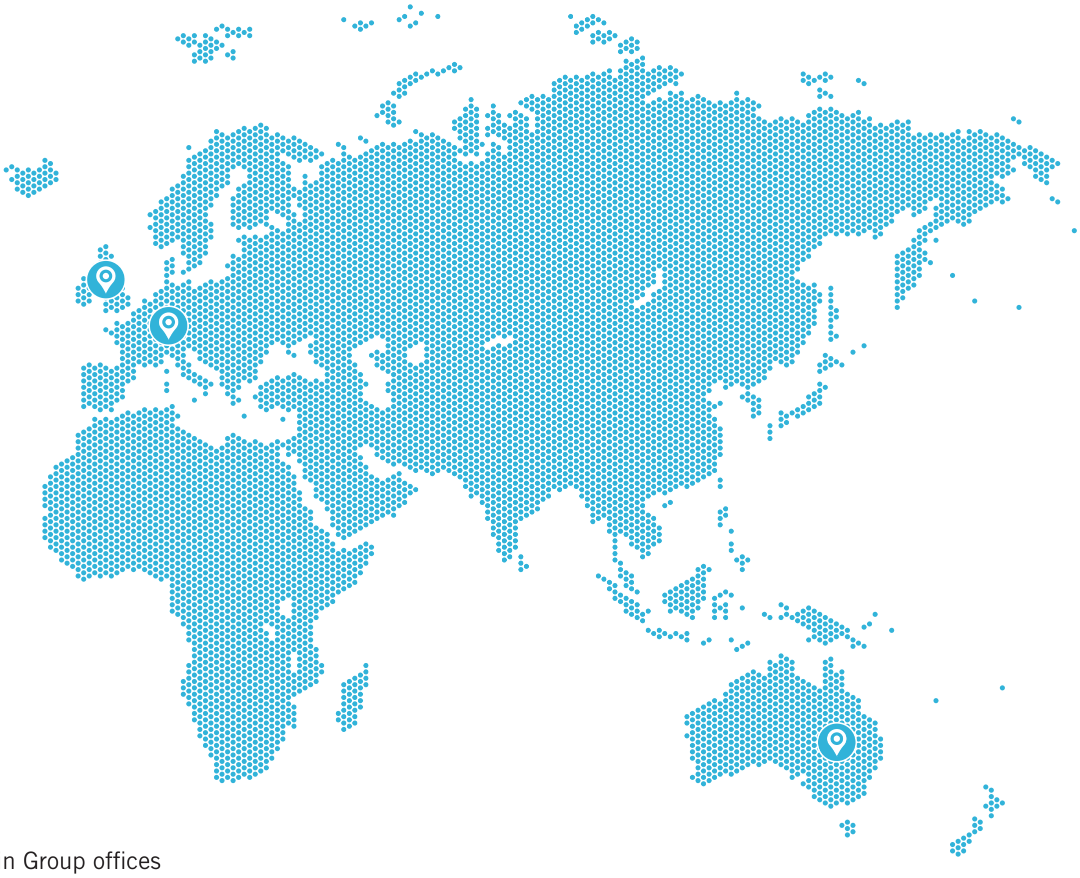
FileFinder is an executive search database, CRM system, research tool, report writer and project management solution all rolled into one. It is designed to support every element of the search process.

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 (desktop or web versions).

Read more on Dillistone Systems on **page 09**

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 permanent, contract and temporary 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



Main Group offices

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 60 people.

Voyager Software division Products

Voyager Software provides a range of products to all levels of the recruitment market.

Front office products

Voyager Infinity manages the work of recruiters working to fill permanent and longer-term contract/temporary vacancies delivering measurable performance efficiencies and audit trails.

Voyager Infinity SaaS has all of the great features of Infinity available as a managed service on the Azure Cloud with affordable set-up and affordable monthly cost.

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

Middle and back office products

Voyager Mid-Office, Voyager's flexible Pay & Bill solution, automates the processing of large volumes of timesheets and payments to numerous clients and candidates.

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

Virtual Voyager

Alongside the native Cloud products with **Virtual Voyager**, all Voyager products can be hosted and delivered to any customer PC with an Internet connection.

Evolve

Through FCP Internet, the division also provides its evolve™ solution.

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

ISV FastPath

Through ISV, the division provides its FastPath solution and is developing its new ISV Online product. This software delivers pre-employment skills testing and training tools to recruitment businesses and corporates.

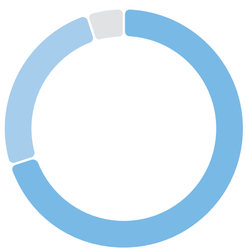
Read more on Voyager Software on **page 09**

Chairman's Statement

"The Group delivered its best ever revenue performance with revenue up 9% to £9.437m."

Dr Mike Love
Non-Executive Chairman

Revenue analysis
2015



The Group has made significant progress in 2015. Product development has continued to be a priority throughout the year with a number of upgrades and new product launches successfully achieved with more expected in 2016.

The Group also delivered its best ever revenue performance with revenue up 9% to £9.437m. The continued investment in the Dillistone Systems division meant that, as anticipated in the interim statement and despite this growth in revenue, the Group saw a 21% fall in operating profit to £1.108m. Profit after tax rose 6% to £1.212m, benefitting from a tax credit in the year. Basic EPS improved to 6.20p.

ISV (www.isvgroup.com), which was acquired in October 2014, has been successfully integrated into the Voyager Software division and is investing in its own product development with a new product, ISV Online, due for launch in 2016.

Dividends

The Board was pleased to increase the interim dividend payment in September 2015 to 1.35p (2014: 1.3p) and has recommended an increased final dividend of 2.75p per share (2014: 2.7p), subject to shareholder approval, payable on 24 June 2016 to holders on the register on 27 May 2016. Shares will trade exdividend from 26 May 2016. This takes the total dividend based on the 2015 results to 4.10p (2014: 4.00p), and gives a yield of 5.1% on a share price of 80.5p.

This represents our fourth 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 our staff.

Outlook

At the time of our interim statement in 2015, the Board explained that increased competition in the executive search software sector in which Dillistone Systems operates necessitated an increased investment to remain competitive. We stated that we believed that we were experiencing early signs of improved performance, noting a year on year upturn in orders, but warned that the increased investment would reduce profitability in 2015.

The Dillistone Systems division has continued – and will continue – to invest in improving products and services, and we are delighted to report further success in the market. Dillistone Systems' core product – FileFinder Anywhere – has seen new client orders grow by more than 70% in the first quarter of 2016, when compared to the same period in 2015. Pleasingly, this growth is based on significant increases in both the number of new client wins and the value of those contracts. This, combined with continuing demand from existing clients, meant that our 12 month order book to March 2016 is at its strongest since 2013.

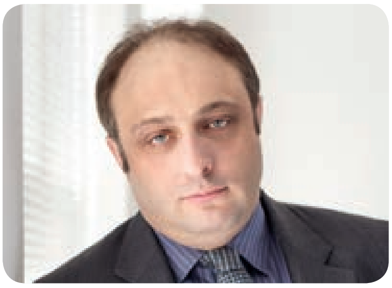
Our Voyager Software division has also enjoyed a strong start to the year. This Division offers a number of products and while performance has varied across the range, it is pleasing to note that the strong performance by several of its leading products has seen orders grow in Q1 by around 50% compared to the same quarter in 2015.

While the Group is not immune to potential economic instability, at this stage the expectation is that this strong order growth will continue. Both divisions are reporting that a growing proportion of incoming business is on a recurring basis, which is good for the longer term but is less positive in the short term. However, the results to date, coupled with our strengthening implementation pipeline, give us confidence that not only will the first half results show improvement over the second half of 2015, but we will see that trend continuing into the second half of this current year.

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 1.9% to 2.75p (2014: 2.7p).

Dr Mike Love
Non-Executive Chairman
26 April 2016

CEO's Review



"The Board is confident that both Divisions have strong futures."

Jason Starr
Chief Executive

Divisional revenue analysis
2015

Read more about our divisions on page 09

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 through 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 delivering progressive career development;
- increase our profitability and deliver increased shareholder value year on year in conjunction with following a progressive dividend policy.

Key performance indicators (KPIs)

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

	FY 2015 £'000	FY 2014 £'000	measure used by management
Total revenues	**9,437**	8,625	year on year growth
Recurring revenues	**6,606**	5,929	year on year growth
Non-recurring revenues	**2,333**	2,285	year on year growth
Adjusted profit before tax	**1,416**	1,824	year on year growth
Cash less borrowings	**1,270**	1,443	sufficient cash resources maintained

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

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

CEO's Review continued

Our business model

WE UTILISE

Our IP, human and physical capabilities

Global thought leaders:

- Offices in UK, Germany, USA, and Australia
- Data centres in Europe, USA, Brazil, Singapore, and Australia
- Around 120 staff

TO DELIVER

Products and services

- Our suite of innovative recruitment software is packaged with an end-to-end service
- Additional services include training, data translation, support services and running conferences
- Our data centres enable us to offer optional hosting

THAT PROVIDE

Short and long term value for our clients

In 2000+ firms across 60 countries, our clients are situated across the entire recruitment landscape.

They say that we provide them with:

- Stability, flexibility and functionality
- Easy access to their data
- Rapid deployment
- Ongoing development ensures upgrade path for clients

AND GENERATE

Short and long term value for our shareholders

Our large client base means that we do not depend on a small number of clients.

We generate revenue typically through three pricing mechanisms:

- Upfront licence fee plus recurring support fee
- Software as a Service (SaaS) subscription basis
- Hybrid model incorporating upfront payment and recurring support and hosting fees

Group review of the business

2015 saw recurring revenues grow 11% to £6.606m (2014: £5.929m) reflecting, in part, the full year impact of the acquisition of ISV in October 2014. Non-recurring revenues increased 2% to £2.333m (2014: £2.285m). As a result, overall revenues increased by 9% to £9.437m (2014: £8.625m) with recurring revenues representing 70% of Group revenues (2014: 69%). Overheads have increased across the business in part reflecting the full year impact of ISV but also reflecting the increased investment in Dillistone Systems as forewarned in the interim statement. This resulted in a 5% fall in adjusted EBITDA to £2.285m (2014: £2.402m). Operating profits before acquisition related items fell 22% to £1.424m (2014: £1.820m) and pre-tax profits before acquisition related items also fell 22% to £1.416m (2014: £1.824m).

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 49% (2014: 53%) of the Group's revenue and it saw revenue grow 1% to £4.620m (2014: £4.557m).

It was pleasing to see revenue return to growth in 2015 after the 9% fall in 2014. However, increased competition means that the Division has to work harder to win business and retain clients, and this has required and continues to require ongoing investment in our products, in our services, and in our infrastructure, which inevitably leads to higher cost of sales and administrative expenses, which was further aggravated by the strength of Sterling in 2015. Depreciation and amortisation also increased by 36% in the Division, reflecting the first full year amortisation charge of the FileFinder browser product, for which costs were capitalised in previous periods. This has led to segmental EBITDA decreasing by 11% to £1.425m (2014: £1.597m) and operating profit falling 24% to £0.891m (2014: £1.168m).

In our interim announcement released to the market in 2015, we explained our increased investment, noted a pleasing increase in product sales and explained our confidence that our product investment would lead to further growth in orders and revenue. I am pleased that this prediction has proven to be accurate as the Division has enjoyed an extremely positive Q1 2016 in terms of incoming contracts. I am delighted to report that the business has enjoyed a strong order book in the first quarter, with new business orders up by more than 70% on the same period of 2015. Pleasingly, this growth has come about as a result of increases in both the number of new contract wins and the value of those contracts. Client retention continues to improve and we are seeing strong demand for products and services from our existing clients.

The FileFinder Anywhere suite continues to be developed, and we anticipate further product announcements within the next 12 months.

Voyager Software

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

In 2015, the Voyager Software division accounted for 51% (2014: 47%) of Group revenues. The Division's revenues increased by 19% to £4.831m and its segmental operating profit before amortisation and depreciation increased by 19% to £0.956m (2014: £0.802m). Recurring revenues increased by 25% to £3.430m (2014: £2.743m). Depreciation and amortisation increased by 113% to £0.327m (2014: £0.153m), having been impacted by the change in the basis of calculation of amortisation of development costs as discussed in the financial review and as well as the continuing spend on development.

The Division benefited from the full year impact of the ISV acquisition made in October 2014. Excluding ISV, underlying growth in revenue was 4%.

2015 saw some major developments in the Division including:

- launch of the cloud hosted version of Infinity available from multiple global regions with additional functionality for use in the temporary staffing sector
- launch of the integration of ISV FastPath and Infinity to help recruitment businesses automate testing candidates, facilitating cross-selling opportunities
- launch of version 6 of Evolve software

Product development is ongoing across the Division and a number of product announcements are expected in 2016.

The Board is confident that both Divisions have strong futures.

CEO's Review continued

Financial risk management

The Group's operations expose it to a number of 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.

Principal risks and uncertainties

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

Risk	Potential adverse impact	Mitigation
Economic risk	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. The Group is following a strategy designed to increase recurring revenues.
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. The cost and time frame for developing and releasing new product could be a bigger drain on resource than built into budgets and forecasts.	Products are tested pre-launch and launch and implementation strategies developed to minimise risks. Additional unit testing is built in and commitment to focus on user experience. Development plan is regularly reviewed by management.
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.

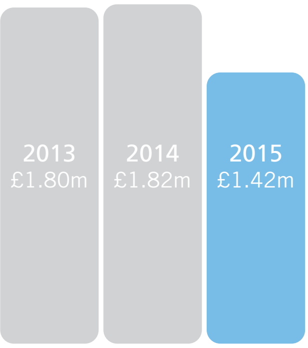
Risk	Potential adverse impact	Mitigation
Competitor activity	The market for recruitment software is extremely fragmented with a large number of small suppliers operating in all of the Group's geographical markets. Very few of these suppliers have the necessary financial, technical and marketing resources 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.	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 saw the launch of a SaaS version of Infinity and 2016 has seen the launch of a standalone 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 are reviewed on a regular basis. The introduction of a SaaS product should result in a more competitive subscription model for Voyager. The Group continues to look into developing new products and additional features to more readily compete.
Business continuity risks associated with information systems' operational failure and data security	A failure of systems or failure of hosting facilities leading to loss of customer confidence in the Group being able to deliver their requirements. Loss or corruption of data held on behalf of customers which could have a detrimental effect on their confidence in data security processes and could cause financial loss. External attacks on servers could result in lost or corrupted data and loss of reputation.	Each division is reliant on data centres. Work is ongoing to improve disaster recovery plans, including investing in the 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. Reliability on 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. Every placing by the Group has been 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 2015.
Brexit	Potential economic uncertainty could lead to a reduction in orders. May impact where recruiting individuals with European languages requirement. It may increase the time and difficulty in recruiting skilled employees.	Clients usually choose best in class and already buy from global firms. Already have to deal with visa requirements for some staff.

Financial Review

"Dillistone finished the year with cash funds of £1.595m and bank borrowings of £0.325m."

Julie Pomeroy
Finance Director

Adjusted profit before tax
2015



Total revenues increased by 9% to £9.437m (2014: £8.625m), with pre-tax profits down 18% to £1.072m (2014: £1.305m).

Recurring revenues increased by 11% to £6.606m (2014: £5.929m) while non-recurring revenues saw a 2% increase to £2.333m from £2.285m. Third party software product sales amounted to £0.498m in the period (2014: £0.411m). These results include ISV revenues for the full year. Underlying revenue growth excluding ISV was 3%.

Cost of sales increased by 19% to £1.313m (2014: £1.108m), reflecting in part, the full year impact of ISV but also from the roll out of additional hosting services.

Administrative costs, excluding acquisition related items, depreciation and amortisation, rose 14% to £5.839m (2014: £5.115m), again reflecting the full year of ISV costs. Excluding ISV, administrative costs rose 8%.

As part of the implementation of FRS 101 in relation to its subsidiaries' accounts, management also reviewed the useful economic life of certain of its development expenditure. Such expenditure is now written off over five years, with amortisation commencing in the month that costs are incurred. Previously, this was estimated to be three years, with amortisation commencing the year following the costs being incurred. This had only a minor impact for the Group but it did result in a higher amortisation charge in the Voyager Software division which was offset by a reduction in the charge in Dillistone Systems division. Depreciation and amortisation increased to £0.861m (2014: £0.582m). Part of this increase reflects the first full year amortisation charge of the FileFinder browser product for which costs were incurred in previous periods and also the continuing spend on development across both divisions. Acquisition related administrative costs totalled £0.316m (2014: £0.418m), and were in respect of the amortisation of intangibles arising on the Voyager, FCP and ISV acquisitions and movement in the estimation of contingent consideration. Finance cost includes £0.028m relating to the unwinding of the discount in respect of the contingent consideration.

Recurring revenues covered 100% of administrative expenses before acquisition related costs (2014: 104%). Excluding depreciation and amortisation of our own internal development, the administrative costs are covered 116% (2014: 116%) by recurring revenues.

There is a tax credit in 2015 of £0.140m (2014: charge £0.160m). The 2015 credit reflects the significant R&D tax credits available to both Dillistone Systems and Voyager Software, the change in deferred tax rate from 20% to 18%, as well as the reduction in corporation tax rates from 21.5% to 20.25% and the release of prior year provisions partially offset by the higher rates of corporation tax that are payable overseas. The acquisition related items tax credit reflects the reduction in deferred tax that arises as amortisation is charged in the profit and loss account.

Profits for the year before acquisition related items fell 10% to £1.419m (2014: £1.584m) and profits for the year after acquisition related items increased 6% to £1.212m (2014: £1.145m). Basic earnings per share (EPS) increased to 6.20p (2014: 6.18p). Fully diluted EPS increased 1% to 6.00p (2014: 5.95p).

Capital expenditure

The Group invested £1.045m in property, plant and equipment and product development during the year (2014: £1.073m). This expenditure included £0.961m (2014: £0.814m) spent on development costs.

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 2015 but that are in respect of services to be delivered in 2016. Contractual income of this type is recognised monthly over the period to which it relates. It also includes deposits taken for work which has not yet been completed, as such income is only recognised when the work is substantially complete or the client software goes “live”. Also included in trade and other payables is £0.620m (2014: £1.173m) in respect of contingent consideration. At the end of 2015, there are three tranches of contingent consideration payable in respect of ISV and these are dependent on the level of revenue achieved in periods up until 30 September 2017.

Cash

The Group finished the year with cash funds of £1.595m (2014: £1.929m) and bank borrowings of £0.325m (2014: £0.487m). This is after capital expenditure of £1.045m, the payment to the vendors of FCP and ISV of £0.666m and dividend payments of £0.793m.

On behalf of the Board

Julie Pomeroy
Finance Director

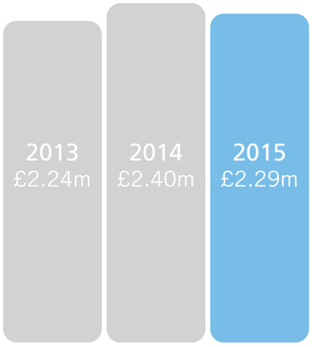
26 April 2016

The Strategic Report is signed on behalf of the Board by

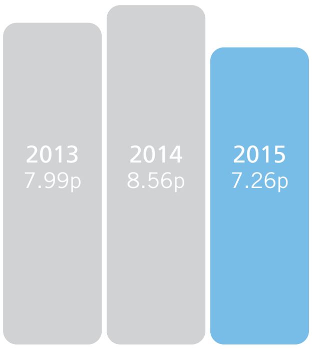
Jason Starr
Chief Executive

26 April 2016

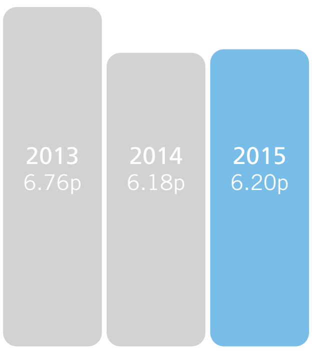
Adjusted EBITDA
2015



Adjusted basic EPS
2015



Basic EPS
2015



Case Study

How Voyager Infinity and ISV FastPath support White Knight Recruitment

In each annual report we highlight how one of our solutions is helping a client to generate real business efficiencies. Last year our case study was based around FileFinder, and so this year we look at how White Knight Recruitment is taking advantage of two of our products – Infinity and FastPath.

How Voyager Infinity & ISV FastPath support White Knight Recruitment

Voyager Software is a market-leading provider of technology to recruitment companies. Following the acquisition of ISV Software, an integration was launched in October 2015 between Voyager Infinity and ISV FastPath. The integration allows users to easily send tests to candidates, review results and submit scores to clients directly from Infinity.

One of the earliest adopters of the integration is White Knight Recruitment and Mark Stevens, its Managing Director, shared his experience about their use of the integration between Infinity and ISV FastPath.

The Background

White Knight Recruitment is a recruitment specialist based in South England, supplying admin and clerical staff to the NHS and public sectors. As an existing user of both Voyager Infinity and ISV FastPath they were delighted with the news of an integration between both applications.

How impactful is being able to access ISV FastPath's skills testing platform directly from inside Infinity?

"The integration has saved us lots of time now that we don't need to enter the same information twice. I especially like that the testing results feed seamlessly into Infinity allowing me to instantly see if the candidate is suitable for a particular job."

How easy is the product to use?

"Sending out tests couldn't be easier! A link is emailed directly to the candidate from within Infinity. When the test has been completed I get alerted in 'My Infinity' which prompts me to review the results."

What are the benefits of offering skills testing to your clients?

"Skills testing is one of the things that sets us apart from our competitors. These skills tests allow us to screen the candidates before we submit them to our clients, this means our clients are only interviewing candidates of a certain calibre, therefore saving them time."

Would you recommend the integration between Infinity and ISV FastPath?

"Yes, we would definitely recommend it. Since we've started using the integration it has saved our consultants lots of admin time, allowing them to focus on what they do best."

“After only 1 month of implementation [of ISV FastPath] our consultants have booked in more candidate registration interviews and have reduced registration time.”

Holly Millen
Commercial Director, Interpersonnel

15 Corporate Governance

Board of Directors

Mike Love (67)
Non-Executive Chairman

Mike Love has a PhD in theoretical physics and over 40 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 (44)
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 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 (48)
Operations Director

Rory Howard has a BA (Honours) degree 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 (43)
Product Development Director

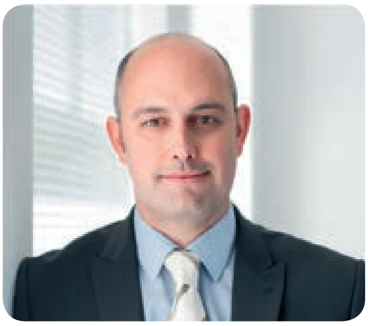
Alex graduated from Swansea University in 1995 with a degree in Psychology. In 1995 Alex joined Mallinckrodt Veterinary, working in quality control. In 1997 he moved to Responseability, a company that manages aspects of the recruitment process for clients, starting in administration before progressing 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.

Julie Pomeroy (60)

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.



Alistair Milne (40)

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.

Giles Fearnley (61)

Non-Executive Director

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

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

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

Committee icons

£ Remuneration Committee

Audit Committee

Corporate Governance Report

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 comprises the Chairman and the Non-Executive Director and usually meets twice during the year.

The Finance Director, Group Chief Executive Officer (CEO) and external Auditor 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 Auditor 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 Auditor. 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 is an agenda item at each Board meeting.

Relationship with Company Auditor

The Auditor ready access to the chairman of the Audit Committee and the Audit Committee meets at least annually with the Auditor 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 the opportunity to interact with members of 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 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 Director 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. No bonus is payable to the Executive Directors in respect of 2015 (2014: £22,000).

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. At the discretion of the Remuneration Committee, Executive Directors are either granted share options at the ruling mid-market price at the time of the grant or a pure cash bonus fixed as a percentage of salary. The awards are subject to meeting challenging EPS growth targets. Annual awards are made under this scheme. Where options are awarded, the value of the award is calculated using a Black Scholes model (see note 22 for further details).

The awards made in the period are included below:

Directors' remuneration (audited)

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

	Salary* and fees £'000	Annual bonus £'000	Pension payments** £'000	Benefits £'000	**2015 £'000**	2014 £'000
Executive Directors						
J S Starr	96	–	28	–	**124**	125
R Howard	47	–	26	–	**73**	72
A D James	88	–	7	1	**96**	95
J P Pomeroy	85	–	10	–	**95**	96
A F Milne	84	–	1	2	**87**	89
Non-Executive Directors						
M D Love	33	–	–	–	**33**	33
G R Fearnley	12	–	–	–	**12**	12
	445	–	72	3	**520**	522

* Salary sacrifice payments have been excluded
** Includes salary sacrifice payments

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 2015* £'000**	Total value of all phantom option LTIP awards carried at 31 December 2014* £'000
J S Starr	–	**–**	11
R Howard	–	**–**	9
A F Milne	–	**–**	6
	–	**–**	26

LTIP award (not audited) – % of salary arrangement

	Maximum payout awarded in period £'000	Paid in the year including Employers NI £'000	**Total value of salary based LTIP awards carried at 31 December 2015* £'000**	Total value of all salary based LTIP awards carried at 31 December 2014* £'000
J S Starr	53	23	**14**	5
R Howard	30	21	**5**	–
A F Milne	–	14	**–**	–
	83	58	**19**	5

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

Report to the Shareholders on Directors' Remuneration continued

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 2015**	Total number of options granted under LTIP scheme at 31 December 2014
A D James	66,359	**66,359**	109,589
J P Pomeroy	66,071	**66,071**	111,233
A F Milne	63,188	**63,188**	–
	195,618	**195,618**	220,822

The options granted in the year were at a price of 108.5p and carry the same performance conditions as the LTIP cash bonus awards. Of the options held at 31 December 2014, 73,975 options were exercised in the year at a grant price of 73p and the balance lapsed.

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 2015	Ordinary shares of 5 pence each at 31 December 2014
J S Starr	**3,577,591**	3,564,959
R Howard	**3,300,000**	3,300,000
A D James	**112,744**	101,494
M D Love	**989,754**	703,254
G R Fearnley	**453,435**	453,435
A F Milne	**59,109**	59,109
J P Pomeroy	**63,733**	39,682

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 2015	Options over ordinary shares of 5 pence each at 31 December 2014
A D James	**66,359**	109,589
J P Pomeroy	**66,071**	111,233
A F Milne	**63,188**	–
	195,618	220,822

In the year Julie Pomeroy and Alex James exercised 37,263 and 36,712 options respectively at an exercise price of 73p. The mid-market share price at the date of exercise was 108.5p. Accordingly gains made by Julie Pomeroy and Alex James were £13,000 each.

Directors' Report

The Directors present their report and financial statements for the year ended 31 December 2015.

Results and dividends

The consolidated statement of comprehensive income for the year is set out on page 27.

An interim dividend of 1.35p per share was paid in June 2015. A final dividend of 2.75p per share will be paid, subject to shareholder approval, on 24 June 2016.

Directors

The following Directors have held office since 1 January 2015:

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 22.

Giles Fearnley and Julie Pomeroy are proposed for re-election at the forthcoming AGM. Julie Pomeroy has a service contract with a one year notice period. Mike Love has been a Non-Executive Director for nine years and therefore will offer himself for re-election annually.

Financial risk management

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

Principal shareholders

As at the 23 April 2016 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	3,577,591	18.19%
R Howard	3,300,000	16.78%
Herald Investment Management	1,767,444	8.99%
Unicorn Asset Management	1,595,301	8.11%
J McLaughlin	1,511,122	7.68%
S McLaughlin	1,061,000	5.39%
M D Love	989,754	5.03%
CFS Independent	870,889	4.43%
Close Asset Management	729,799	3.71%
R Howells	650,000	3.30%

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.

Directors’ Report continued

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 14 June 2016 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 2015 and a resolution proposing their reappointment as Auditor 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.

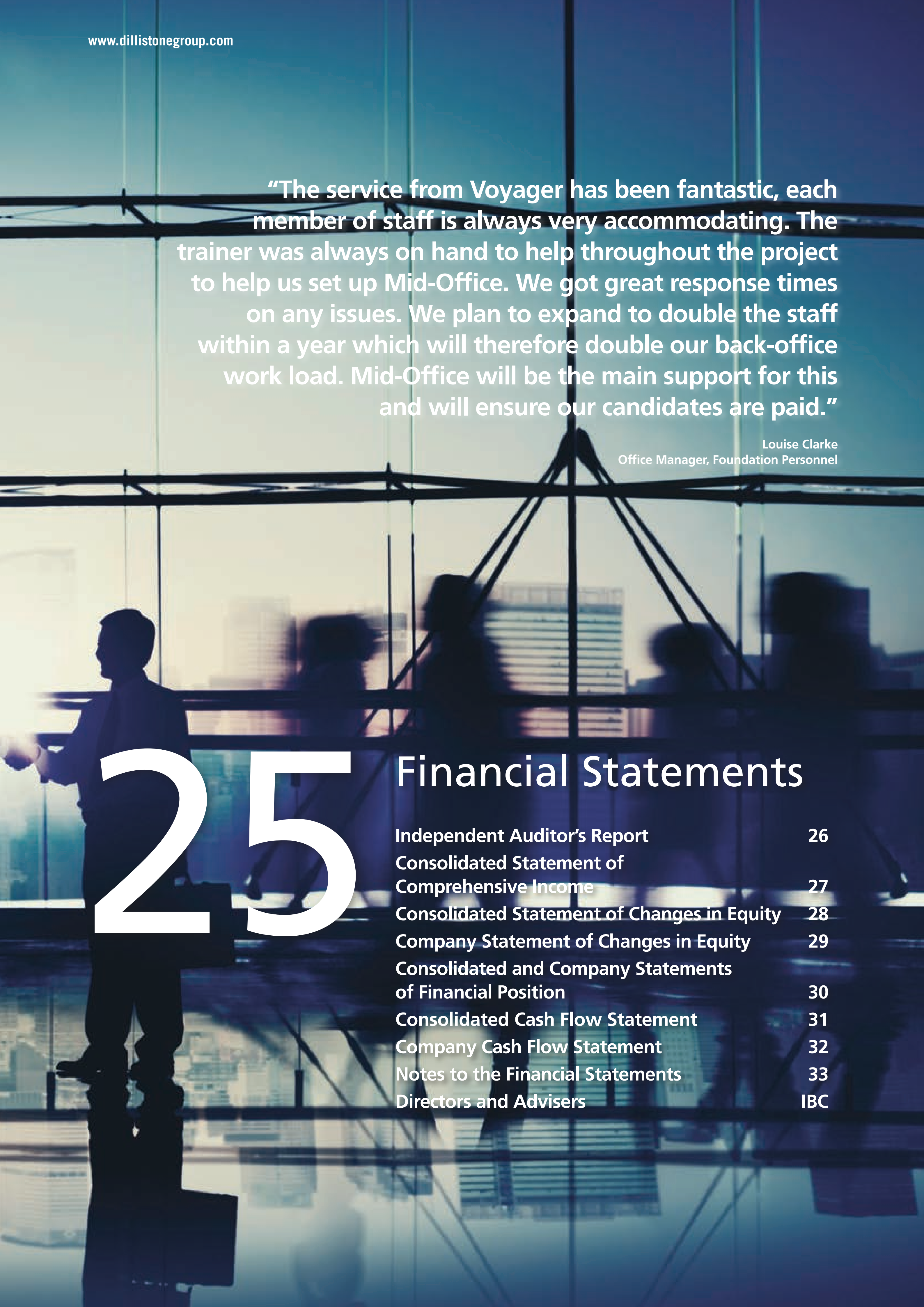
The Directors confirm that so far as each Director is aware:

- 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
26 April 2016



"The service from Voyager has been fantastic, each member of staff is always very accommodating. The trainer was always on hand to help throughout the project to help us set up Mid-Office. We got great response times on any issues. We plan to expand to double the staff within a year which will therefore double our back-office work load. Mid-Office will be the main support for this and will ensure our candidates are paid."

Louise Clarke
Office Manager, Foundation Personnel

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Financial Statements

Independent Auditor's Report

To the Members of Dillistone Group Plc for the year ended 31 December 2015

We have audited the financial statements of Dillistone Group Plc for the year ended 31 December 2015 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 24, 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 2015 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.

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
26 April 2016

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Revenue	3	**9,437**	8,625
Cost of sales		**(1,313)**	(1,108)
Gross profit		**8,124**	7,517
Administrative expenses		**(7,016)**	(6,115)
Profits from operating activities	6	**1,108**	1,402
Adjusted operating profit before acquisition related items	2	**1,424**	1,820
Acquisition related items	5	**(316)**	(418)
Operating profit		**1,108**	1,402
Financial income	8	**5**	6
Finance cost	8	**(41)**	(103)
Profit before tax		**1,072**	1,305
Tax income/(expense)	9	**140**	(160)
Profit for the year		**1,212**	1,145
Other comprehensive income net of tax:			
Items that will be reclassified subsequently to profit and loss			
Currency translation differences		**(27)**	(8)
Total comprehensive income for the year net of tax		**1,185**	1,137
Earnings per share – from continuing activities			
Basic	10	**6.20p**	6.18p
Diluted	10	**6.00p**	5.95p

The notes on pages 33 to 59 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Share option £'000	Foreign exchange £'000	Total £'000
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 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	3,514	118	128	6,526
Comprehensive income							
Profit for the year ended 31 December 2015	–	–	–	1,212	–	–	1,212
Other comprehensive income							
Exchange differences on translation of overseas operations	–	–	–	–	–	(27)	(27)
Total comprehensive income	–	–	–	1,212	–	(27)	1,185
Transactions with owners							
Issue of share capital	14	199	–	–	–	–	213
Share option charges	–	–	–	75	(47)	–	28
Dividends paid	–	–	–	(793)	–	–	(793)
Total transactions with owners	14	199	–	(718)	(47)	–	(552)
Balance at 31 December 2015	**983**	**1,631**	**365**	**4,008**	**71**	**101**	**7,159**

The notes on pages 33 to 59 are an integral part of these consolidated financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2015

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Share option £'000	Total £'000
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
Comprehensive income						
Total comprehensive income for the year ended 31 December 2015	–	–	–	932	–	932
Transactions with owners						
Issue of share capital	14	199	–	–	–	213
Share option charge	–	–	–	75	(47)	28
Dividends paid	–	–	–	(793)	–	(793)
Total transactions with owners	14	199	–	(718)	(47)	(552)
Balance at 31 December 2015	**983**	**1,631**	**365**	**1,577**	**71**	**4,627**

The notes on pages 33 to 59 are an integral part of these consolidated financial statements.

Consolidated and Company Statements of Financial Position

As at 31 December 2015

	Note	Group 2015 £'000	Group 2014 £'000	Company 2015 £'000	Company 2014 £'000
ASSETS					
Non-current assets					
Goodwill	12	**3,415**	3,415	**–**	–
Other intangible assets	13	**6,163**	6,317	**–**	–
Property, plant and equipment	14	**257**	299	**–**	–
Investments	15	**–**	–	**7,599**	7,599
		9,835	10,031	**7,599**	7,599
Current assets					
Inventories	16	**16**	41	**–**	–
Trade and other receivables	17	**1,736**	1,784	**345**	331
Cash and cash equivalents		**1,595**	1,929	**59**	387
		3,347	3,754	**404**	718
Total assets		**13,182**	13,785	**8,003**	8,317
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	20	**983**	969	**983**	969
Share premium		**1,631**	1,432	**1,631**	1,432
Merger reserve		**365**	365	**365**	365
Retained earnings		**4,008**	3,514	**1,577**	1,363
Share option reserve	22	**71**	118	**71**	118
Translation reserve		**101**	128	**–**	–
Total equity		**7,159**	6,526	**4,627**	4,247
Liabilities					
Non-current liabilities					
Trade and other payables	18	**428**	666	**428**	666
Borrowings	19	**158**	325	**158**	325
Deferred tax liability	9	**1,006**	1,152	**–**	–
Current liabilities					
Trade and other payables	18	**4,193**	4,669	**2,623**	2,917
Borrowings	19	**167**	162	**167**	162
Current tax payable		**71**	285	**–**	–
Total liabilities		**6,023**	7,259	**3,376**	4,070
Total liabilities and equity		**13,182**	13,785	**8,003**	8,317

The notes on pages 33 to 59 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 26 April 2016. They were signed on its behalf by

J P Pomeroy
Director
Company Registration No. 4578125

Consolidated Cash Flow Statement

As at 31 December 2015

	2015 £'000	2015 £'000	2014 £'000	2014 £'000
Operating activities				
Profit before tax	1,072		1,305	
Less taxation paid	(219)		(122)	
Adjustment for:				
Financial income	(5)		(6)	
Financial cost	41		103	
Depreciation and amortisation	1,240		868	
Share option expense	28		13	
Foreign exchange adjustments arising from operations	(16)		(3)	
Operating cash flows before movement in working capital	2,141		2,158	
Decrease/(increase) in receivables	278		(81)	
Decrease in inventories	25		37	
(Decrease)/increase in payables	(307)		4	
Net cash generated from operating activities		2,137		2,118
Investing activities				
Interest received	5		6	
Finance cost	(13)		(2)	
Purchases of property, plant and equipment	(84)		(259)	
Investment in development costs	(961)		(814)	
Acquisition of subsidiaries net of cash acquired	–		(718)	
Contingent and deferred consideration paid	(666)		(550)	
Net cash used in investing activities		(1,719)		(2,337)
Financing activities				
Net proceeds from issue of share capital	213		989	
Bank loan received	–		500	
Bank loan repayments made	(162)		(13)	
Dividends paid	(793)		(723)	
Net cash (used in)/generated from financing activities		(742)		753
Net (decrease)/increase in cash and cash equivalents		(324)		534
Cash and cash equivalents at beginning of year		1,929		1,399
Effect of foreign exchange rate changes		(10)		(4)
Cash and cash equivalents at end of year		1,595		1,929

The notes on pages 33 to 59 are an integral part of these consolidated financial statements.

Company Cash Flow Statement

	2015 £'000	**2015 £'000**	2014 £'000	2014 £'000
Operating activities				
Profit before tax	**932**		896	
Less taxation paid	**–**		–	
Adjustment for:				
Financial cost	**41**		103	
Share option expense	**28**		13	
Operating cash flows before movements in working capital	**1,001**		1,012	
(Increase)/decrease in receivables	**(14)**		36	
Increase/(decrease) in payables	**106**		123	
Net cash generated from operating activities		**1,093**		1,171
Investing activities				
Finance cost	**(13)**		(2)	
Investment in acquisitions	**–**		(1,063)	
Contingent and deferred consideration paid	**(666)**		(550)	
Net cash used in investing activities		**(679)**		(1,615)
Financing activities				
Net proceeds from issue of share capital	**213**		989	
Bank loan received	**–**		500	
Bank loan repayments made	**(162)**		(13)	
Dividends paid	**(793)**		(723)	
Net cash (used in)/from financing activities		**(742)**		753
Net (decrease)/increase in cash and cash equivalents		**(328)**		309
Cash and cash equivalents at beginning of year		**387**		78
Cash and cash equivalents at end of year		**59**		387

The notes on pages 33 to 59 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the year ended 31 December 2015

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 notes 12 and 13.

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 customers' practical acceptance, thereby reducing the judgement required to ascertain the timing of licence revenue recognition.

Notes to the Financial Statements continued

For the year ended 31 December 2015

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 life cycle of the asset which is subject to alteration as a result of product development and innovation. Amortisation rates are changed where economic lives are reassessed 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 7 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 2015. 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. Accounting policies (continued)

1.4 Revenue

General

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

Licensing (excluding SaaS)

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

Professional services

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

Product support, hosting and software as a service (SaaS)

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

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 a share based payment scheme.

It 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 share 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.

Notes to the Financial Statements continued

For the year ended 31 December 2015

1. Accounting policies (continued)

1.6 Long term incentive plan – capped cash bonus

The LTIP awards can be share based or cash based. The cash awards are 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 risk 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.

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 costs and subcontracted costs, which are managed and controlled centrally. Product development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised product development expenditure for versions of the Group's FileFinder product (up to version 9) and for expenditure on subsequent enhancements and releases to FileFinder 10 is amortised over its useful life. Previously, this was estimated to be three years, with amortisation commencing the year following the costs being incurred. Following a review across the Group, management now considers the useful economic life of such development expenditure to be five years, with amortisation commencing in the month of costs being incurred. Maintenance costs are expensed.

Capitalised product development expenditure for the Company's FileFinder version 10 and the browser version of FileFinder up to their launch are considered to be platform technology and are therefore amortised over their useful life of ten years or to 30 June 2021, whichever is the shorter period.

Capitalised product development expenditure is subject to regular impairment reviews and is stated at cost less any accumulated impairment losses. Any impairment taken during the year is shown under administrative expenses on the statement of comprehensive income. Development costs that do not meet the requirements for capitalisation are written off to profit and loss as incurred.

Purchased software

Software acquired externally is capitalised when it is expected to have ongoing use within the business. Capitalised expenditure includes both the purchase price and any costs directly associated with bringing the software into use. Amortisation is charged over the useful economic life of the software, typically three to five years, beginning when it is capable of being used by the business.

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

Notes to the Financial Statements continued

For the year ended 31 December 2015

1. Accounting policies (continued)

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.

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. Accounting policies (continued)

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.

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.

Notes to the Financial Statements continued

For the year ended 31 December 2015

1. Accounting policies (continued)

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

The following relevant new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning on 1 January 2015, as adopted by the European Union, and have not been early adopted. These standards and interpretations are not expected to have any significant impact on the financial statements when applied.

Standard	Key requirements	Effective date as adopted by the EU
Amendments to IAS 16 and IAS 38	Clarifies acceptable methods of depreciation and amortisation.	1 January 2016
Amendments to IAS 1	Disclosure amendments	1 January 2016
Amendments to IFRS 5	Non-current assets held for sale and discontinued operations	1 January 2016
Amendments to IFRS 7	Disclosure amendments	1 January 2016

The following standards have been issued by the IASB but have not yet been adopted by the EU:

Standard	Key requirements	Effective date as adopted by the EU
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019

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

	Note	Adjusted operating profits 2015 £'000	Acquisition related items 2015 £'000	2015 £'000	Adjusted operating profits 2014 £'000	Acquisition related items 2014 £'000	2014 £'000
Revenue		9,437	–	9,437	8,625	–	8,625
Cost of sales		(1,313)	–	(1,313)	(1,108)	–	(1,108)
Gross profit		8,124	–	8,124	7,517	–	7,517
Administrative expenses		(6,700)	(316)	(7,016)	(5,697)	(418)	(6,115)
Results from operating activities		1,424	(316)	1,108	1,820	(418)	1,402
Financial income		5	–	5	6	–	6
Financial cost		(13)	(28)	(41)	(2)	(101)	(103)
Profit before tax		1,416	(344)	1,072	1,824	(519)	1,305
Tax income/(expense)		3	137	140	(240)	80	(160)
Profit for the year		1,419	(207)	1,212	1,584	(439)	1,145
Other comprehensive income net of tax:							
Currency translation differences		(27)	–	(27)	(8)	–	(8)
Total comprehensive income for the year net of tax		1,392	(207)	1,185	1,576	(439)	1,137
Earnings per share – from continuing activities							
Basic	10	7.26p		6.20p	8.56p		6.18p
Diluted	10	7.02p		6.00p	8.23p		5.95p

* See accounts note 5

3. Segment reporting

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

Divisional segments

For the year ended 31 December 2015

	Dillistone £'000	Voyager £'000	Inter-divisional revenue £'000	Central £'000	Total £'000
Segment revenue	4,620	4,831	(14)	–	9,437
Segment EBITDA	1,425	956		(96)	2,285
Depreciation and amortisation expense	(534)	(327)		–	(861)
Segment result	891	629		(96)	1,424
Acquisition related amortisation	–	–		(379)	(379)
Acquisition related income	–	–		63	63
Operating profit/(loss)	891	629		(412)	1,108
Financial income	4	1		–	5
Loan interest				(13)	(13)
Acquisition related interest expenses				(28)	(28)
Profit before tax					1,072
Income tax expense					140
Profit after tax					1,212
Additions of non-current assets	556	489		–	1,045

For the year ended 31 December 2014

	Dillistone £'000	Voyager £'000	Inter-divisional revenue £'000	Central £'000	Total £'000
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)
Profit before tax					1,305
Income tax expense					(160)
Profit after tax					1,145
Additions of non-current assets	720	353		–	1,073

Notes to the Financial Statements continued

For the year ended 31 December 2015

3. Segment reporting (continued)

Products and services

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

Revenue

	2015 £'000	2014 £'000
Recurring income	**6,606**	5,929
Non-recurring income	**2,333**	2,285
Third party revenues	**498**	411
	9,437	8,625

Recurring income includes all support services, SaaS and hosting income. Non-recurring income includes sales of new licenses, and income derived from installing those licenses including training, installation, and data translation. Third party revenues arise from the sale of third party software.

It is not possible to allocate assets and additions between recurring, non-recurring income and third party revenue.

No customer represented more than 10% of revenue of the Group.

4 Geographical analysis

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

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

Revenue

	2015 £'000	2014 £'000
UK	**7,642**	6,859
US	**1,381**	1,198
Australia	**414**	568
	9,437	8,625

Non-current assets by geographical location

	2015 £'000	2014 £'000
UK	**9,829**	10,025
US	**4**	4
Australia	**2**	2
	9,835	10,031

5. Acquisition related items

	2015 £'000	2014 £'000
Included within administrative expenses:		
Estimated change in fair value of contingent consideration (note 23)	**(63)**	(9)
Amortisation of acquisition intangibles	**379**	286
Fees relating to acquisitions	**–**	141
	316	418
Included within finance cost:		
Unwinding of discount on contingent consideration (note 8)	**28**	101
	344	519

6. Profits from operating activities

	2015 £'000	2014 £'000
Profits from operating activities is stated after charging:		
Depreciation	126	94
Amortisation	1,115	773
Gain/(loss) on foreign exchange transactions	5	3
Operating lease rentals	293	255
Money purchase pension contributions	265	179
Fees receivable by the Group Auditor:		
Audit of financial statements	43	24
Other services:		
Audit of accounts of subsidiary of the Company	50	50
Other services relating to taxation	30	61
All other services	25	45

7. Employees

The average number of employees was:

	2015	2014
Operations	111	96
Management	9	7
Employee numbers	120	103

Their aggregate remuneration comprised:

	2015 £'000	2014 £'000
Wages and salaries	4,656	4,089
Social security costs	496	437
Pension costs	265	179
Share based payments	15	12
LTIP share based	44	(45)
LTIP non share based	15	(40)
	5,491	4,632

The aggregate remuneration includes salary cost and Directors' remuneration totalling £924,000 (2014: £792,000) that have been capitalised in intangible assets.

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

	2015 £'000	2014 £'000
Wages and salaries and benefits	681	662
Social security costs	88	74
Pension costs	89	51
Share based payments charged	1	10
LTIP share based	44	(59)
LTIP non share based	15	(40)
	918	698

Details of Directors' emoluments, share options and pension entitlements are given in the Report to the Shareholders on Directors' Remuneration on pages 20 to 22.

Notes to the Financial Statements continued

For the year ended 31 December 2015

8. Financial income

	2015 £'000	2014 £'000
Interest receivable	**5**	6
Finance cost on bank loan	**(13)**	(2)
Unwinding of discount on contingent consideration	**(28)**	(101)
	(36)	(97)

9. Tax (income)/expense

	2015 £'000	2014 £'000
Current tax	**191**	353
Prior year adjustment – current tax	**(185)**	(153)
Deferred tax	**(25)**	31
Prior year adjustment – deferred tax	**16**	9
Deferred tax re acquisition intangibles	**(137)**	(80)
Tax (income)/expense for the year	**(140)**	160
Factors affecting the tax charge for the year		
Profit before tax	**1,072**	1,305
UK rate of taxation	**20.25%**	21.5%
Profit before tax multiplied by the UK rate of taxation	**217**	281
Effects of:		
Overseas tax rates	**46**	84
Impact of deferred tax not provided	**(7)**	–
Enhanced R&D relief	**(131)**	(99)
Disallowed expenses	**14**	75
Rate change impact on deferred tax	**(110)**	(37)
Prior year adjustments	**(169)**	(144)
Tax (income)/expense	**(140)**	160

Deferred tax provided in the financial statements is as follows:

		Group		**Company**	
	2015 £'000	Movement £'000	2014 £'000	**2015 £'000**	2014 £'000
Accelerated intangible amortisation	**467**	(6)	473	**–**	–
Provisions	**(10)**	(3)	(7)	**–**	–
Acquisition intangibles	**549**	(137)	686	**–**	–
	1,006	(146)	1,152	**–**	–

The UK corporation tax rate in the year fell from 21% to 20% giving an effective rate for the year of 20.25%. Deferred tax is provided in relation to the UK at 18%. The tax credit is impacted by the higher rates of corporation tax payable in the US and Australia offset by the R&D tax credits available to both Dillistone Systems division and Voyager Software division and the reduction in the long term rate of corporation tax to 18% which has been used in the calculation of deferred tax. The release of prior year provisions relate in part to the agreement of the prior years' tax positions of UK companies. The Group has gross tax losses and temporary timing differences of £492,000 (2014: £292,000) for which no deferred tax asset has been recognised.

10. Earnings per share

	2015 Using adjusted operating profit	**2015**	2014 Using adjusted operating profit	2014
Profit attributable to ordinary shareholders	**£1,419,000**	**£1,212,000**	£1,584,000	£1,145,000
Weighted average number of shares	**19,547,754**	**19,547,754**	18,512,594	18,512,594
Basic earnings per share	**7.26 pence**	**6.20 pence**	8.56 pence	6.18 pence
Weighted average number of shares after dilution	**20,209,339**	**20,209,339**	19,243,357	19,243,357
Fully diluted earnings per share	**7.02 pence**	**6.00 pence**	8.23 pence	5.95 pence

Reconciliation of basic to diluted average number of shares	**2015**	2014
Weighted average number of shares (basic)	**19,547,754**	18,512,594
Effect of dilutive potential ordinary shares – employee share plans	**661,585**	730,763
Weighted average number of shares after dilution	**20,209,339**	19,243,357

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 £932,000 (2014: £896,000).

12. Goodwill

Group	**Goodwill £'000**
Cost	
At 1 January 2014	2,745
Additions	670
At 31 December 2014	3,415
Additions	–
At 31 December 2015	**3,415**
Carrying amount	
At 31 December 2015	**3,415**
At 31 December 2014	3,415

The Group has reviewed the cash generating units ("CGU") within the business. Previously each entity was treated as a CGU and this did not take fully into account the dependency of cash flows generated from specific assets. Accordingly the current view is that the CGUs are:

- Dillistone Systems division
- Voyager and FCP
- ISV

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.

Notes to the Financial Statements continued

For the year ended 31 December 2015

12. Goodwill (continued)

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% (2014: 12% to 19.4%). 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 in the range of 1.75% to 2% (2014: 2%) for all CGUs. The allocation of goodwill across the CGUs is as follows:

	Opening £'000	Addition £'000	Impairment £'000	Closing £'000
Dillistone division	494	–	–	494
Voyager and FCP consolidated	2,251	–	–	2,251
ISV	670	–	–	670
	3,415	–	–	3,415

Sensitivities

To reduce the headroom in the impairment calculation to £nil for the Voyager and FCP consolidated goodwill would require a reduction of terminal growth rate to 0% and an increase in the discount rate to over 50%. Alternatively, cash flows would need to fall by over 60%. For ISV cash flows would need to fall by over 75% to reduce the headroom to £nil. No meaningful sensitivity for the Dillistone goodwill reduces the headroom to £nil.

13. Other intangible assets

Group	**Development costs £'000**	**Purchased software £000**	**Acquisition intangibles £'000**	**Total £'000**
Cost				
At 1 January 2014	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
Additions	936	25	–	961
At 31 December 2015	**5,565**	**25**	**4,172**	**9,762**
Amortisation				
At 1 January 2014	1,255	–	456	1,711
Charge for the year	487	–	286	773
At 31 December 2014	1,742	–	742	2,484
Charge for the year	736	–	379	1,115
At 31 December 2015	**2,478**	**–**	**1,121**	**3,599**
Carrying amount				
At 31 December 2015	**3,087**	**25**	**3,051**	**6,163**
At 31 December 2014	2,887	–	3,430	6,317

13. Other intangible assets (continued)

Acquisition intangibles can be summarised as follows

	Brand £'000	Developed technology £'000	Brand and IP £'000	Contractual and non-contractual relationship £'000	Total £'000
NBV					
At 1 January 2015	152	335	604	2,339	3,430
Additions	–	–	–	–	–
Amortisation	(13)	(53)	(41)	(272)	(379)
At 31 December 2015	**139**	**282**	**563**	**2,067**	**3,051**

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 and computer equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2014	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
Currency impact	–	1	1	–	2
Additions	1	82	1	–	84
Disposals	–	–	–	(2)	(2)
At 31 December 2015	**186**	**758**	**152**	**–**	**1,096**
Depreciation					
At 1 January 2014	165	484	132	–	781
Currency impact	–	2	2	–	4
Charge for the year	7	83	3	1	94
Eliminated on disposal	(166)	–	–	–	(166)
At 31 December 2014	6	569	137	1	713
Currency impact	–	1	1	–	2
Charge for year	38	82	5	1	126
Eliminated on disposal	–	–	–	(2)	(2)
At 31 December 2015	**44**	**652**	**143**	**–**	**839**
Carrying amount					
At 31 December 2015	**142**	**106**	**9**	**–**	**257**
At 31 December 2014	179	106	13	1	299

Notes to the Financial Statements continued

For the year ended 31 December 2015

15. Non-current asset investments

Company

Cost	Investments in subsidiaries £'000
At 1 January 2014	5,675
Additions	1,924
At 31 December 2014	7,599
Additions	–
At 31 December 2015	**7,599**

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	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Licences for resale	**16**	41	**–**	–

17. Trade and other receivables

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Trade receivables	**1,512**	1,531	**–**	–
Group receivables	**–**	–	**333**	318
Other current assets	**37**	47	**–**	–
Prepayments and accrued income	**187**	206	**12**	13
	1,736	1,784	**345**	331

17. Trade and other receivables (continued)

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:

	2015 £'000	2014 £'000
At start of year	63	90
Movement in the year	25	(27)
At the year end	88	63

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

	2015 £'000	2014 £'000
Current		
Past due date:	1,284	1,317
31–60 days overdue	82	88
More than 60 days overdue	146	126
Total	1,512	1,531

18. Trade and other payables

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Current liabilities				
Trade and other payables	665	594	64	42
Group payables	–	–	2,231	1,971
Deferred income	2,670	2,711	–	–
Accruals	651	857	121	397
Contingent consideration	207	507	207	507
	4,193	4,669	2,623	2,917
Non-current liabilities				
Contingent consideration	413	666	413	666
Cash settled LTIP	15	–	15	–
	428	666	428	666

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

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
In current liabilities	207	507	207	507
In non-current liabilities	413	666	413	666
	620	1,173	620	1,173

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

Notes to the Financial Statements continued

For the year ended 31 December 2015

19. Borrowings

Borrowings at amortised cost

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Current bank borrowings	**167**	162	**167**	162
Non current bank borrowings	**158**	325	**158**	325
Total bank borrowings	**325**	487	**325**	487

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

The borrowings consist of a bank loan repayable over three 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 three year period. An early repayment fee of 1% of the amount prepaid must be made if the option is exercised. Management have reviewed the term of the prepayment option and deemed it to be closely related to the underlying debt instrument and hence it 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

	2015 £'000	2014 £'000
Allotted, called up and fully paid		
Ordinary shares of 5 pence each	**983**	969

Share options totalling 280,475 were exercised by employees in the period at a weighted average exercise price of 75.95p.

Shares issued and fully paid

	2015 £'000	2014 £'000
Beginning of the year	**19,387,546**	18,275,120
Shares issued on placing	**–**	1,052,632
Shares issued on exercise of options	**280,475**	59,794
Shares issued and fully paid	**19,668,021**	19,387,546

21. Operating lease arrangements

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

At 31 December 2015, the Group had future total commitments under non-cancellable operating leases as follows:

	2015 £'000	2014 £'000
Commitments payable:	**731**	709
Within one year	**233**	256
Between two and five years	**498**	453

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 ten 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 and 14 July 2015.

There were two grants of options in 2015. The weighted average share price of all grants in 2015 was 105.61p. 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
3 Feb 2015	58,500	90.50p	90.50p	30%	3.3 years	10%	1.00%	4.0%
14 July 2015	306,257	108.50p	108.50p	30%	3.3 years	0%	1.00%	4.0%

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

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 Dec 2014	245,000	97.00p	97.00p	30%	3.3 years	10%	1.00%	4.0%

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

	2015		2014	
	No of options*	**WAEP***	No of options*	WAEP*
Outstanding at beginning of year	**930,561**	**80.41**	754,355	74.74
Granted during year	**364,757**	**105.61**	245,000	97.00
Exercised during year	**(280,475)**	**75.95**	(59,794)	77.00
Forfeited during year	**(182,347)**	**76.33**	(9,000)	78.94
Outstanding at the end of the year	**832,496**	**93.86**	930,561	80.41
Exercisable at the year end	**197,239**	**67.49**	413,739	72.95

*Adjusted for the 2 for 1 bonus issue where appropriate

In the year Julie Pomeroy exercised 37,263 options and Alex James exercised 36,712 options which had been granted on 29 May 2012 at an exercise price of 73p. The remaining options totalling 146,847, relating to this grant lapsed in the period. The mid-market share price at the date of exercise was 108.5p. The Company's mid-market share price on 31 December 2015 was 74.0p.

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 £28,000 (2014: £13,000).

Notes to the Financial Statements continued

For the year ended 31 December 2015

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	27,000	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	95,500	77.00
Unapproved	21/09/2011	21/09/2014	20/09/2021	18,000	77.00
EMI	08/07/2013	08/07/2016	07/07/2023	17,000	79.50
EMI	25/11/2013	25/11/2016	24/11/2023	20,000	115.00
Unapproved	08/12/2014	08/12/2017	07/12/2024	10,000	97.00
EMI	08/12/2014	08/12/2017	07/12/2024	223,500	97.00
EMI	03/02/2015	03/02/2018	02/02/2025	58,500	90.50
EMI	14/07/2015	14/07/2018	13/07/2025	306,257	108.5
				832,496	

208,475 share options were exercised during the year at a weighted average exercise price of 75.9p and the weighted average share price at the date of exercise was 106.9p. The weighted average remaining contractual life of options at 31 December 2015 was 8.0 years (2014: 7.5 years).

LTIP

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. Awards from 2013 onwards under the long term incentive plan take the form of a cash bonus of up to one-third annual salary or the grant of share options, with appropriate performance conditions in place.

The phantom options granted in 2012 pursuant to the Company's 2011 long term incentive plan ("LTIP") matured in the period and had exercise conditions linked to share price growth and growth in earnings per share over a three year period. This is measured by taking the earnings per share in the 2014 statutory accounts compared to the earnings per share in the 2011 statutory accounts. The amount paid out in respect of this LTIP was £58,000 and this payment has been set against salaries & wages and social security. In 2015, there is a charge of £9,000 in respect of the LTIP schemes which are share based and require separate disclosure under IFRS 2.

23. Contingent consideration payable in respect of acquisitions

As part of the acquisition of FCP, the Group agreed to pay the vendors contingent consideration over the period to 31 March 2015. During 2015, the final contingent consideration payment was made totalling of £460,000.

In the 2015 accounts, the amount payable under the contingent consideration was increased by £4,000 and this has been charged to the profit and loss. This contingent consideration had been discounted at 3.48% and the discount charged to profit and loss in 2015 totalled £3,000.

In September 2014 the Group acquired the entire share capital of ISV. As part of the acquisition, deferred consideration of £150,000 was paid in January 2015. In addition, the vendors are entitled to contingent consideration based on revenue over the period to 30 September 2017. The first payment was made in 2015 of £56,000. In the 2015 accounts, the amount payable under the contingent consideration was decreased by £67,000 and this has been credited to the profit and loss. This contingent consideration has been discounted at 3.48% and the discount charged to profit and loss in 2015 totalled £25,000.

At the year end the Group had a liability for contingent consideration made up as follows:

- 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.

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 2015 was:

At 31 December 2015

	Group		**Company**	
	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)	**1,512**	**–**	**333**	**–**
Cash and cash equivalents	**–**	**1,595**	**–**	**59**
Total	**1,512**	**1,595**	**333**	**59**

The interest rate profile of the Group's financial assets at 31 December 2014 was:

At 31 December 2014

	Group		Company	
	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

Notes to the Financial Statements continued

For the year ended 31 December 2015

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.

At 31 December 2015

	Group		**Company**	
	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 payables (current liabilities)	**3,986**	**–**	**2,416**	**–**
Trade and other payables (non-current liabilities)	**15**	**–**	**15**	**–**
Bank borrowings	**–**	**325**	**–**	**325**
Contingent consideration (current liabilities)	**207**	**–**	**207**	**–**
Contingent consideration (non-current liabilities)	**413**	**–**	**413**	**–**
	4,621	**325**	**3,051**	**325**

At 31 December 2014

	Group		Company	
	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 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

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 ageing 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.

24. Financial instruments (continued)

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	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Trade and other receivables (current assets)	**1,512**	1,531	**333**	318
Cash and cash equivalents	**1,595**	1,929	**59**	387
Total	**3,107**	3,460	**392**	705

(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 2015, 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 2015

	Carrying amount £'000	**< 1 year £'000**	**1–2 years £'000**	**2–5 years £'000**
Trade and other payables (current liabilities)	**4,193**	**4,193**	**–**	**–**
Trade and other payables (non-current liabilities)	**428**	**–**	**413**	**15**
Bank borrowings	**325**	**167**	**158**	**–**
	4,946	**4,360**	**571**	**15**

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

Notes to the Financial Statements continued

For the year ended 31 December 2015

24. Financial instruments (continued)

Company

31 December 2015

	Carrying amount £'000	< 1 year £'000	1–2 years £'000	2–5 years £'000
Trade and other payables (current liabilities)	**2,623**	**2,623**	**–**	**–**
Trade and other payables (non-current liabilities)	**428**	**–**	**413**	**15**
Bank borrowings	**325**	**167**	**158**	**–**
	3,376	**2,790**	**571**	**15**

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

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.

At the year end, the Group had assets totalling £1,004,000 and liabilities totalling £640,000 denominated in Euros (2014: assets totalling £551,000 and liabilities totalling £356,000), assets totalling £1,501,000 and liabilities totalling £992,000 denominated in US Dollars (2014: assets totalling £1,537,000 and liabilities totalling £1,181,000) and assets totalling £376,000 and liabilities totalling £324,000 denominated in Australian Dollars (2014: assets totalling £370,000 and liabilities totalling £319,000).

If each of the exchange rates strengthened by 5%, the impact on the income statement would as follows:

	Group	
	2015 £'000	2014 £'000
Euros	**7**	5
US Dollars	**7**	14
Australian Dollars	**1**	4
	15	23

At the year end, the Company had liabilities totalling £156,000 denominated in Euros (2014: liabilities totalling £99,000), assets totalling £234,000 denominated in US Dollars (2014: assets totalling £124,000) and assets totalling £78,000 denominated in Australian Dollars (2014: assets totalling £61,000).

24. Financial instruments (continued)

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	**2015 £'000**	2014 £'000
Total borrowings	19	**325**	487
Less cash or cash equivalents		**(1,595)**	(1,929)
Net cash		**(1,270)**	(1,442)
Total equity		**6,992**	6,526
Total capital gearing ratio		**0%**	0%

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**	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Loans and receivables				
Cash and cash equivalents	**1,595**	1,929	**59**	387
Trade and other receivables	**1,512**	1,531	**333**	318
	3,107	3,460	**392**	705
Financial liabilities held at amortised cost				
Trade and other payables	**4,001**	4,162	**2,431**	2,410
Borrowings	**325**	487	**325**	487
Financial liabilities held at fair value				
Contingent consideration	**620**	1,173	**620**	1,173
	4,946	5,822	**3,376**	4,070

Notes to the Financial Statements continued

For the year ended 31 December 2015

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 2015 and 31 December 2014:

	2015 £'000 Level 3	2014 £'000 Level 3
Contingent consideration	**620**	1,173

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 acquisition of ISV Software (see note 23) and is estimated using a present value technique. The contingent consideration of £620,000 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 2015 is 3.48% and is based on an after tax estimate of the Group's current borrowing rate.

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

	2015 £'000	2014 £'000
At start of year	**(1,173)**	(918)
Acquired through business combination	**–**	(713)
Paid in year	**516**	550
Movement in fair value recognised in profit or loss under finance costs	**(26)**	(101)
Movement in fair value recognised in profit or loss under administrative expenses	**63**	9
At the year end	**(620)**	(1,173)

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 £335,000 (2014: £313,000).

In the year Julie Pomeroy and Alex James exercised 37,263 and 36,712 options respectively at an exercise price of 73p. The mid-market share price at the date of exercise was 108.5p. To fund the exercise of the share options, Julie Pomeroy sold 25,844 shares at 106p and Alex James sold 25,462 shares at 106p.

During the year, Mike Love bought 100,000 shares at 106.5p and 126,500 shares at a price of 79p per share. In addition, Jason Starr and Julie Pomeroy also each bought 12,632 shares at a price of 79.16p.

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 £102,000 (2014: £96,000) and a dividend of £nil from its subsidiary company Dillistone Systems (US) Inc (2014: £111,000). At the year end Dillistone Systems (US) Inc owed £234,000 (2014: owed £122,000) to the Company.

During the current year Dillistone Systems Limited paid a dividend of £1,000,000 (2014: £1,000,000) to Dillistone Group Plc and a management charge of £204,000 (2014: £237,000). At the year end Dillistone Systems Limited was owed £836,000 (2014: £1,294,000).

The Company received a management charge during the year from Dillistone Systems (Australia) Pty Limited of £34,000 (2014: £34,000) and at the year end was owed £78,000 (2014: owed by the Company £62,000).

Voyager Software paid a management charge of £144,000 (2014: £144,000) and owed the Company £201,000 at the year end (2014: £115,000). Woodcote Software owed the Company £13,000 at the year end (2014: £13,000).

FCP Internet Limited paid a management charge of £84,000 and was owed by the Company £724,000 at the year end (2014: owed by the Company £365,000).

A management charge of £60,000 was received from ISV Software and at the year end the Company owed ISV £314,000 (2014: £200,000).

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

28. Dividends

The dividends paid in 2015 and 2014 were £793,000 (4.05p per share) and £723,000 (3.90p per share). A final dividend in respect of the year ended 31 December 2015 of 2.75p per share will be paid on 24 June 2016. These financial statements do not reflect this dividend.

Shareholder Notes

Directors and Advisers

Directors

M D Love – Non-Executive Chairman
G R Fearnley – Non-Executive Director
J S Starr – Chief Executive
R Howard – Operations Director
A D James – Product Development Director
J P Pomeroy – Group Finance Director
A F Milne – Director of Support Services

Secretary

J P Pomeroy

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