DSG
Dillistone Group Plc

Empowering recruitment globally through technology

Annual Report
for the year ended
31 December 2017

Stock code: **DSG**

WELCOME TO THE DILLISTONE ANNUAL REPORT 2017

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 three divisions are Dillistone Systems, Voyager Software and GatedTalent. 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. GatedTalent was established in 2017 to provide a network allowing executives to share information with selected executive recruiters in a GDPR compliant manner.

Definitions:

1 The component elements of recurring revenues are detailed in note 3.

2 Adjusted operating profit is statutory operating profit before acquisition costs, related intangible amortisation, movements in contingent consideration and other one-off costs. See note 2.

3. Adjusted basic EPS is computed from statutory profits after tax adjusted to exclude the post-tax effect of acquisition costs, related intangible amortisation, movements in contingent consideration and other one-off costs. See note 10.

Contents

Look out for the following icon throughout this report:

01 Read further within the report...

HIGHLIGHTS

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

"The current trading performance of the Group is positive with orders for both Dillistone Systems and Voyager Software ahead of the same period in 2017 – with the former more than 25% up on the same period in 2017 and the latter having one of the best quarters for new business orders in its history.

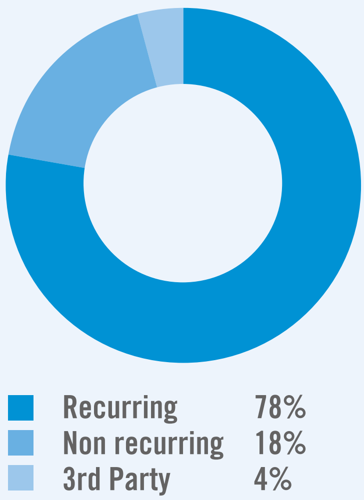
Our GatedTalent product, launched in October 2017, has been very well received with a growth trajectory that, we believe, will lead to it becoming the dominant product in its market space within a year.

Recurring revenues for 2017 were at record levels and, despite the ongoing investment in product development, cash reserves have held up well. Overall, despite the evident pressure on new licence sales in 2017 and the loss for the year of £0.071m, going into 2018 the Group believes that it is now in a stronger position in its core markets than in recent years.

This confidence in the future allows us to recommend a final dividend of 0.5p and we anticipate reporting further positive progress as the year progresses."

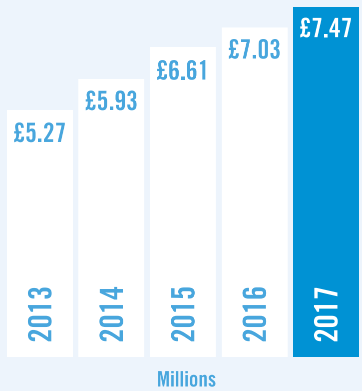
Revenue analysis

2017



Recurring revenues

↑6%



- Record level of recurring revenues[1], of £7.474m, up 6% from 2016 with total revenue down 4% to £9.582m
- Recurring revenues, representing 78% of Group revenue, covering 97% of Group administration expenses before acquisition related and one-off costs
- GatedTalent launched in October 2017 and which made an operating loss of £0.439m
- Adjusted operating profit[2] fell to £0.309m (2016: £1.463m) before acquisition intangible write offs and an adjustment for the loss of a contract in our Voyager division which totalled £0.823m pre-tax
- Loss for the year of £0.071m (2016: profit £0.526m)
- Adjusted basic EPS[3] of 3.08p (2016: 7.10p)
- A final dividend of 0.5p per share recommended (2016: 2.8p)
- Cash funds at 31 December 2017 of £1.390m (2016: £1.537m) with borrowings of £0.391m (2016: £0.158m)
- New GatedTalent platform grows rapidly, with more than 160 contracted search firm clients by 26 April 2018 and first revenues in 2018
- Executive membership on the GatedTalent platform is both senior and diverse with CEO, Managing Director and General Manager being most frequently referenced current position and members registered from 75 countries.

OI Read more on **Group Performance** on pages **08** to **14**

Investor relations website

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

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.

2016

Voyager software division launched ISV Online and the first of a suite of mobile apps.

2017

GatedTalent was established in 2017 to provide a network allowing executives to share information with selected executive recruiters in a GDPR compliant manner.

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 3 divisions.

Dillistone Systems
Dillistone.com

GATEDTALENT

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. It employs around 60 people.

Dillistone Systems division Products

FileFinder Anywhere

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). It features exclusive integration with the GatedTalent platform, allowing users to search the GatedTalent database and send GDPR related privacy notices without leaving the product.

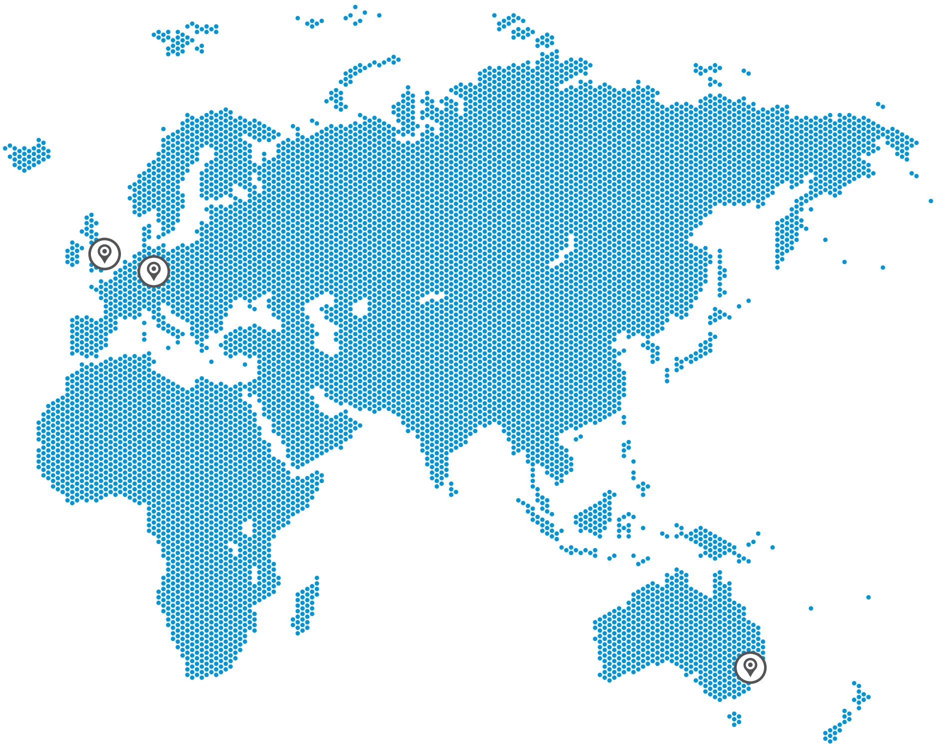
GatedTalent division

GatedTalent was established in 2017 to provide a network allowing executives to share information with executive recruiters in a GDPR compliant manner. Our launch partners include a number of globally recognised search firms and the expectation is that these firms will invite around 3 million of the world's most senior executives to join the platform.

PRODUCTS

GATEDTALENT

GatedTalent is a private network allowing executives to share confidential data with executive recruiters. The product benefits from exclusive integration with the FileFinder Anywhere CRM, developed by the Dillistone Systems division.



Voyager Software division

Voyager Software itself became a part of the Dillistone Group in September 2011. It has always provided end-to-end recruitment solutions to the recruitment sector, typically those working on a contingency basis, and continues to do so to this day. In September 2012, Voyager Software launched its latest generation of recruitment solutions with its Infinity product. Infinity is designed to improve the performance and efficiency of recruitment businesses specialising in permanent, contract and temporary roles. With automation at its heart, it meets the demands of flexibility and functionality required by these recruitment firms. Alongside Voyager Software's VDQ product, for pure fast paced temporary agencies, and Mid-Office, the pay-and-bill solution for the back office, the business covers the whole contingency recruitment space. In 2013, the Group acquired FCP Internet, suppliers of the evolve™ SaaS product, and this has subsequently been integrated into the Voyager Software Division. In October 2014, a further acquisition, ISV Software – a supplier of skills testing and training services, was also incorporated into the Division. Today, the Voyager Software Division's 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 front office:

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 Infinity Connect Mobile App is the new super easy-to-use mobile app for recruiters on the go. The app, available in both iOS (Apple) and Android (Google) stores, allows the user to quickly and easily look up contacts from their Voyager Infinity SaaS database and all communication is logged against the database in real time.

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

Through FCP Internet, the Division also provides its evolve™ 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.

Voyager mid and back office:

Voyager Mid-Office is a flexible Pay & Bill solution, which 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.

Skills testing and training:

ISV delivers pre-employment skills testing and training tools to recruitment businesses and corporates. In late 2016, ISV launched ISV Online, incorporating all the best elements from its original testing platform, FastPath.

CHAIRMAN'S STATEMENT

For the year ended 31 December 2017

Dr Mike Love
Non-Executive Chairman

2017 was an exciting year for the Dillistone Group with the launch of GatedTalent (www.GatedTalent.com) on 9 October 2017 at the World Executive Search Congress.

Our business has traditionally been involved in the supply of technology to the recruiting and associated sectors. GatedTalent is a private network – a tool which allows executives to share information with trusted recruiters. It is a first for our Group and has the potential to transform the nature of the Group's underlying business model from software to data.

More generally, trading across the Group was challenging in 2017, although we did see some improvement in operational performance in the second half of the year – despite the increasing costs associated with GatedTalent. Overall, Group revenue fell 4% to £9.582m, of which recurring revenue grew 6% to £7.474m.

Adjusted operating profit dropped significantly to £0.309m in part due to the investment made in GatedTalent and in part due to a decline in new licence sales. Excluding our GatedTalent investment, the Group remained cash generative across this year.

As anticipated in our Interim statement, a SaaS contract with a major client expired in early 2018. This contract, with a client using a legacy product acquired as a result of an acquisition made several years ago, was worth in the region of £600,000 per annum in contribution terms to the Group. Consequently, the Group has accelerated its acquisition intangibles amortisation by £0.459m taking total amortisation to £0.838m (2016: £0.379m).

The Board has raised £0.400m from the Directors and PDMRs (person discharging managerial responsibilities) in the form of a convertible loan note to provide continued funding for GatedTalent.The loan notes carry an interest rate of 8.15% and a conversion price of 71.6p. The loan note has a 3-year duration but with various rights for early conversion or repayment.

Dividends

In view of the fund raising carried out to develop GatedTalent, we did not pay an interim dividend. However we propose paying a final dividend of 0.5p (2016: 2.8p) subject to Shareholder approval. The dividend will be payable on 13 July 2018 to Shareholders on the register on 15 June 2018. Shares will trade ex dividend from 14 June 2018. Future dividends will depend on Group performance.

Staff

Our staff are fundamental to our success. 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 for their individual and collective contributions during 2017 and for the huge effort demonstrated during the early months of 2018, supporting our GDPR related projects.

Outlook

Both our Dillistone Systems and Voyager Software divisions have enjoyed strong demand for our products and services during the first quarter of 2018. The Board is delighted to note that, while Voyager revenues will clearly be impacted by the previously announced loss of a legacy contract, Q1 2018 saw one of its best ever quarters in terms of new contract wins.

After a slow January, orders for Dillistone Systems' FileFinder product improved significantly in February and March and ended the quarter more than 25% up on the same period in 2017. Many of these orders were driven by demand for our GatedTalent product which features exclusive integration with FileFinder Anywhere.

In our 27 February announcement, we revealed that we had achieved the milestone of 100 clients for our GatedTalent service. We continue to see strong demand for the platform, with more than 160 firms having now signed contracts. The division has now generated its first subscription revenue.

Long term revenue growth from the GatedTalent platform will be derived from interactions with executives who register with the service and create a profile. Executives join to be "On the radar" of our executive recruiter clients. They may register directly at **www.GatedTalent.com** or via an invitation from a Search firm – these invitations are typically sent as part of an executive recruiter's GDPR compliancy process.

The platform is working well and as expected and the throughput on the GatedTalent platform is growing month on month and is expected to accelerate rapidly over the period to the end of July. The number of profiles is also growing and is also expected to increase quickly over the coming months.

Having originally anticipated that our clients would send around 1 million invitations, our current belief is that the number of invitations will be around 3 million. The majority of our clients are expected to leave mailing of compliancy messages as late as legally possible and, despite the thousands of messages already sent, we believe that the vast majority of our clients will not send messages before May, with a number of firms likely to complete the process in June or even July.

We are seeing significant variances in invitation conversion rates between clients. Some firms are seeing in excess of 8% of invitations leading to Profiles; others are seeing a fraction of 1% converting. What is apparent from the Profiles that have been created so far, however, is that our executive talent pool will be both senior and diverse. Currently, the three most common Job Titles for our Executives are "CEO", "Managing Director" and "General Manager". We have onboarded profiles from executives in 75 countries. A heatmap with further information on profile data is available at **www.gatedtalent.com/metrics/**.

The Group has paid dividends throughout its time as a public company and, having ended the year with cash of £1.390m, the Board is pleased to be in a position to pay a dividend of 0.5p per share.

Dr Mike Love
Non-Executive Chairman
26 April 2018

GATEDTALENT

WHAT IT DOES AND HOW IT WORKS

What is GatedTalent?

Imagine a private database of the world's global executives. Imagine if this database included detailed, private information on those executives – including biographical, aspirational and often compensation data. Imagine if the database was curated by the executives themselves in a manner that made it entirely GDPR friendly. Imagine if the information provided by the executive was enhanced by detailed company data. And imagine that database offered seamless two-way integration with the leading executive search CRM. And… one more thing. Imagine this database was huge. And global. That's what GatedTalent is.

How does it work?

Virtually any executive recruiter storing information covered by the GDPR will need to go through a process of confirming and proving that their data is legal. As part of this process, they will typically make contact with huge numbers of executives they store in their databases. GatedTalent will manage this process and then, optionally, will invite the executive to create a detailed – but private – profile which will be shared only with recruiters that the executive has chosen to trust. Recruiters using the platform will earn credits for any executives who they introduce and who go on to create a profile – those credits may be used to search the anonymised database of "unconnected executives" and make connection requests to executives who are currently not known to the firm.

How is this different to LinkedIn or Xing?

LinkedIn and Xing are both social networks. Any information uploaded to these platforms is essentially publicly available. That means that many of the most senior executives do not use these networks – and they wouldn't dream of sharing private data such as compensation on an open platform. With GatedTalent, search firms make connection requests and executives say YES or NO. It's as simple as that. Executives control who sees some, all or none of their data.

How is it different to other online services that are designed to allow executives to network with recruiters?

Over the course of 2018, our executive search firm clients will invite around 3 million executives to join the platform. The largest comparable product – the AESC's Bluesteps – has about 115,000 profiles within it, despite having been in existence for around a decade. We are confident that, within a year, our data pool will be close to or larger and more up to date than Bluesteps. It will then continue to grow, because – for the thousands of FileFinder users worldwide – the database will be fully integrated with everything they do. Our users will find executives in the platform and so executives will want to be in the platform. Furthermore – unlike most products in this space – we'll never charge the executives. We don't believe that the world's most senior executives need to pay to interact with search firms.

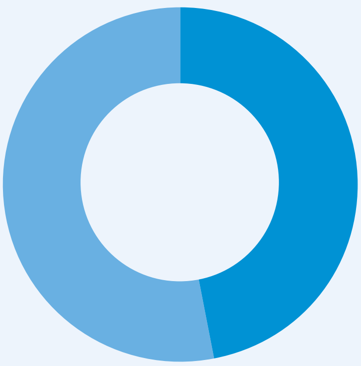
CHIEF EXECUTIVE OFFICER’S REVIEW

For the year ended 31 December 2017

“Dillistone Systems division is expected to benefit particularly from the launch of GatedTalent, which targets the same market as FileFinder and is tightly integrated.”

Jason Starr
Chief Executive

Divisional revenue
2017



Recurring 47%
Non recurring 53%

Dillistone Group Plc is a global leader in the supply of solutions and services to the recruitment sector 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 a progressive dividend policy.

Key Performance Indicators (KPIs)

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

	FY2017 £000	FY2016 £000	Measure used by management	Met/not met
Total revenues	9,582	9,963	year on year growth	not met
Recurring revenues	7,474	7,027	year on year growth	met
Non recurring revenues	1,644	2,370	year on year growth	not met
Adjusted profit before tax	303	1 ,458	year on year growth	not met
Cash	1,390	1 ,537	sufficient cash resources maintained	met

Adjusted profit before tax is statutory profit before acquisition costs, related intangible amortisation, movements in contingent consideration and other one-off costs. See note 2 and note 5.

Where KPIs are not being met, the Board considers ways in which performance could be improved. In addition, the Board monitors order levels and employee numbers as well as performance against budget.

Our business model

The business is split into three Divisions. Dillistone Systems and Voyager Software are our established businesses, with GatedTalent launched in the second half of 2017.

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. GatedTalent is a private network of executives, accessed by executive recruiters. This Division generates revenue based on a combination of recruiter subscription and transaction fees for connecting with executives. There is a close relationship between GatedTalent and Dillistone Systems.

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

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

There is a continuing move away from the upfront license model towards our cloud delivery services.

The business operates out of four countries: the UK, Germany, the US and Australia. As well as supplying and supporting our software we also host the software for a proportion of our clients. This is done through data centres in Europe, the Americas, Singapore and Australia.

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

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

CHIEF EXECUTIVE OFFICER'S REVIEW

For the year ended 31 December 2017 **continued**

Group review of the business

2017 saw recurring revenues grow 6% to £7.474m (2016: £7.027m) reflecting the increasing adoption of our SaaS offering. Non-recurring revenues decreased to £1.644m (2016: £2.370m). As a result, overall revenues decreased by 4% to £9.582m (2016: £9.963m) with recurring revenues representing 78% of Group revenues (2016: 71%). Costs have increased in part due to GatedTalent which made an operating loss of £0.439m and which was in development for all of 2017. We saw our first revenue from GatedTalent in Q1 of 2018 although, as anticipated, revenue in the first half will not be significant and the Division will be loss making in 2018.

Adjusted EBITDA[1] fell to £1.409m (2016: £2.433m). Adjusted operating profit fell to £0.309m (2016: £1.463m) and pre-tax profits before acquisition related items and one-off adjustments reduced to £0.303m (2016: £1.458m). There was an operating loss for the year of £0.514m (2016: profit £0.412m) and loss for the year of £0.071m (2016:profit £0.526m). Cash at the year end was £1.390m (2016: 1.537m).

[1] Adjusted EBITDA is adjusted operating profit with depreciation and amortisation added back. See note 3.

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 47% (2016: 49%) of the Group's revenue and it saw revenue fall 6% to £4.548m (2016: £4.858m). The Division is expected to benefit particularly from the launch of GatedTalent, which targets the same market as FileFinder and is tightly integrated.

Earnings before interest, tax, depreciation and amortisation ('EBITDA') fell to £0.778m (2016: £1.434m) as sales fell and costs increased. Total amortisation and depreciation charge was £0.589m (2016: £1.229m). (In 2016 we reviewed our amortisation policy for capitalised development costs to bring it more into line with industry practice by writing off all such costs over five years rather than a range of five to ten years and the impact of this on the Dillistone division was an increase to the 2016 charge by £0.600m). Operating profit for 2017 was £0.189m (2016: £0.205m).

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 2017, the Voyager Software division accounted for 53% (2016: 51%) of Group revenues. The Division's revenues decreased by 1% to £5.034m (2016: £5.105m). EBITDA increased by 10% to £1.200m (2016: £1.093m). Amortisation and depreciation increased to £0.511m (2016: £0.461m). Divisional operating profit increased 9% to £0.689m (2016: £0.632m).

2017 saw some major developments in the Division including:

- Development of TempNinja – A new mobile companion app allowing candidates to view and accept temporary jobs, update their availability and chat directly with recruiters using Voyager's popular VDQ! and Infinity SaaS solution.
- Additional functionality released in Infinity (including Infinity SaaS) including enhanced support for the temporary recruitment sector & Power BI reporting.
- A well-received industry wide education programme around the forthcoming GDPR legislation being recognised as an industry leader.
- Enhancements and new content for ISV. Online including tests around the GDPR.

GatedTalent

GatedTalent was established in 2017 to provide a network allowing executives to share information with selected executive recruiters in a GDPR compliant manner. The GatedTalent product was under development throughout 2017 and therefore did not generate revenue.

GatedTalent is the most exciting product we have developed in recent years. The platform is free to executives. Revenue will be generated from executive recruiters through subscriptions to the platform and through charges for "connection requests" made through the platform.

The platform is now live, with clients using it; compliance messages being sent and profiles being created. Subscription revenue is now being generated. We expect that GatedTalent will manage the process of sending around 3 million such messages during the course of 2018. We believe that the vast majority of our clients will not send messages before May 2018, with a number of firms likely to complete the process in June or even July.

The Division is effectively a start-up business within the Group and is expected to be loss making in 2018, although we do anticipate that it will have a direct and positive impact on the performance of our Dillistone Systems business starting in 2018. During 2017, GatedTalent incurred an operating loss of £0.439m and development expenditure of £0.391m was capitalised.

The Board is confident that all three Divisions have strong futures.

Financial risk management

The Group's operations expose it to a number of risks that include the effect of changes in interest rates, credit, foreign currency exchange rates and liquidity. The Group does not trade in financial instruments. Further details in relation to these risks are shown in note 25.

Interest rate risk

The Group is exposed to interest rate risk through its floating rate overdraft, 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. The Group is, however, exposed to translation risks on net assets held.

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. Acquisitions have increased the exposure to the UK economy. Future acquisitions may be overseas. In a downturn there may be a reduction in new permanent hires which may be replaced by temporary hires. The temporary recruitment market is potentially anti-cyclical. The Group's products support both permanent and temporary hires. Innovation and new products help maintain opportunities for the business world-wide.
New product risk	All technology suppliers need to develop new products and applications and there is always a risk that new products may lead to issues. This could damage the Group's reputation and result in loss of new orders and therefore reduce revenue growth. It could also result in claims against the Group. The cost and time frame for developing and releasing new products 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. The development plan is regularly reviewed by management and the Board. Agile project methodology so stakeholders have regular visibility and influence on what is being developed. Product Manager added in 2018 for Dillistone Systems to help ensure product is fit for purpose. Additional UX (User Experience) Resource to be added to help deliver software that meets the needs of clients in 2018.
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 dealing with issues. The Group continues to invest in new products with new features being added.
Competitor activity	The market for recruitment software is extremely fragmented with a large number of small suppliers operating in all of the Group's geographical markets. Very few of these suppliers have the necessary financial, technical and marketing resources to be able to develop their competitive position. However, the competition may intensify through consolidation or new entrants to the market. Some competitors offer a broader product range enabling them to compete across the whole of the sector. The businesses can easily lose market share if its products are not well regarded either from being "out of date" or "buggy". Some firms may try to compete on price, particularly if the market deteriorates.	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 2017 saw the continued development of temp functionality to Infinity, TempNinja and the continued development of ISV Online. 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. If successful, GatedTalent will provide a competitive advantage to FileFinder. Close integration with FileFinder is likely to lead to a sustained competitive advantage for our executive search CRM platform. The Group continues to look into developing new products and additional features to more readily compete.

CHIEF EXECUTIVE OFFICER'S REVIEW

For the year ended 31 December 2017 continued

Risk	Potential adverse impact	Mitigation
Business continuity risks associated with information systems, operational failure, data security and cyber security risks	A failure of systems or failure of hosting facilities leading to loss of customer confidence in the Group being able to deliver their requirements. Loss or corruption of data held on behalf of customers which could have a detrimental effect on their confidence in data security processes and could cause financial loss. External attacks on servers could result in lost or corrupted data and loss of reputation.	Each division is reliant on data centres. Work ongoing to move data centres to the cloud through Amazon and Azure. Plans are regularly reviewed on how to improve data centre management as the business grows worldwide. Data backups occur at least 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. Regular review of Group wide infrastructure to improve cyber defences locally and at data centres.
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.
Ability to finance acquisitions and new development	The Group wants to grow either by acquisition or through development of its own products. 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.
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.	In 2018 we anticipate a further strengthening of product development management capability and review of divisional structures.
Foreign exchange volatility	The Group has substantial operations in both the UK and overseas. Profits are exposed to variations in exchange rates thereby impacting on reported profits.	There is usually some element of natural hedge in the currencies, although if sterling strengthens against all currencies it can have a negative impact on results.
Brexit	Potential economic uncertainty could lead to a reduction in orders in the short to medium term, impacting adversely on the Group's results. Clearly, any changes brought about by Brexit are likely to be implemented in the lead up to the exit date, which might introduce changes to the UK-EU trading arrangements. This 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. The Group continues to monitor implications and is continually reviewing its products and pricing to ensure it stays competitive. We deal with visa requirements for some staff already.
Data protection legislation	Ensure that all Group products comply with international data protection legislation and demonstrate to clients that they do.	Work being carried out to ensure data is secure and protected at appropriate levels. Senior member of executive team has GDPR practitioner certificate. Appropriate internal committee established. Numerous webinars held for clients and prospects on the impact of GDPR.
Ability to source new talent	The Group is reliant on specialist skills, especially in Development and Dev Ops and it may not be possible to recruit resources locally.	Look more broadly at where staff are based or use of outsourcing.

FINANCIAL REVIEW

For the year ended 31 December 2017

"The Group finished the year with cash funds of £1.390m (2016: £1.537m); bank borrowings of £nil (2016: £0.158m) and a convertible loan of £0.391m (after taking into account the equity adjustment)."

Julie Pomeroy
Finance Director

Total revenues decreased by 4% to £9.582m (2016: £9.963m) with recurring revenues increasing by 6% to £7.474m (2016: £7.027m) while non-recurring revenues decreased to £1.644m (2016: £2.370m).

Third party resell revenue amounted to £0.464m in the period (2016: £0.566m).

Cost of sales increased by 4% to £1.536m (2016: £1.478m), mainly due to continued investment in cloud based hosting facilities through Azure and Amazon.

Administrative costs, excluding acquisition related items, depreciation and amortisation, rose 10% to £6.637m (2016: £6.052m). In part this was due to the investment in GatedTalent which made an operating loss £0.439m. Total depreciation and amortisation, decreased to £1.100m (2016: £1.690m) following the one-off adjustment of £0.720m in 2016 relating to the review of its amortisation policy for capitalised development costs.

Acquisition related administrative costs totalled £0.823m (2016: £0.331m) 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. The current year figure also includes an acceleration of the acquisition intangibles amortisation as a result of the loss of a major contract in that business as disclosed in note 13. Finance cost includes £0.005m (2016: £0.015m) relating to the unwinding of the discount in respect of the contingent consideration.

Recurring revenues covered 97% of administrative expenses before acquisition related and one-off costs (2016: 100%). Excluding depreciation and amortisation of our own internal development, the administrative costs are covered 113% (2016: 116%) by recurring revenues.

The Group benefitted from a tax credit in 2017 of £0.454m (2016: credit £0.134m). The 2017 credit reflects the significant R&D tax credits available to all three divisions and the assumption that any tax losses will be surrendered for the R&D tax credit payment. It has also been impacted by the reduction in tax rate to 19.25% (2016: 20%) as well as the impact of the one-off adjustment in respect of amortisation of development costs and adjustments to prior year computations. These benefits are 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.

Profit for the year before acquisition related and other one-off items amounted to £0.606m (2016: £1.395m). The 2017 adjusted profits benefitted from a tax credit of £0.303m (2016: tax credit of £0.063m). The loss for the year after acquisition related items and other one-off items was £0.071m (2016: profit £0.526m). Basic earnings per share (EPS) fell to (0.36)p (2016: 2.68p). Fully diluted EPS fell to (0.36)p (2016: 2.62p). Adjusted basic EPS fell to 3.08p (2016: 7.10p).

Capital expenditure

The Group invested £1.506m in property, plant and equipment and product development during the year (2016: £1.126m). This expenditure included £1.358m (2016: £1.056m) spent on capitalised development related costs.

FINANCIAL REVIEW

For the year ended 31 December 2017 **continued**

Trade and other payables

As with previous years, the trade and other payables includes deferred income, ie income which has been billed in advance but is not recognised as income at that time.
This principally relates to support, SaaS and cloud hosting renewals, which are billed in 2017 but are in respect of services to be delivered in 2018. 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 £0.146m (2016: £0.375m) in respect of contingent consideration. At the end of 2017, there was one tranche of contingent consideration payable in respect of ISV relating to the revenue in the nine month period to 30 September 2017 and this was paid in February 2018.

Cash

The Group finished the year with cash funds of £1.390m (2016: £1.537m); bank borrowings of £nil (2016: £0.158m) and a convertible loan of £0.391m (after taking into account the equity adjustment). This is after capital expenditure of £1.506m, the final payment to the vendors of ISV of £0.219m and dividend payments of £0.551m.

On behalf of the Board

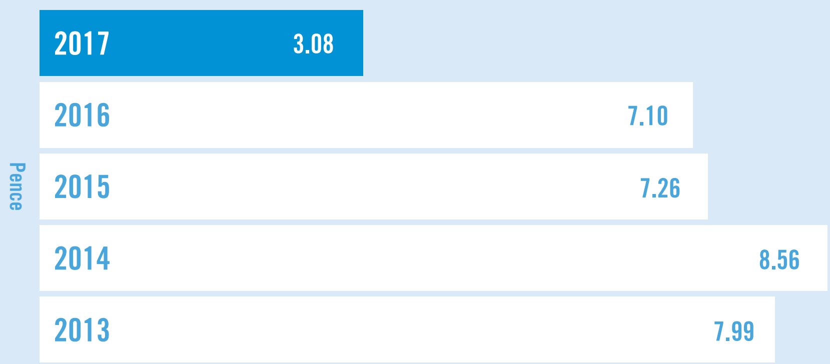
Julie Pomeroy
Finance Director
26 April 2018

The Strategic Report is signed on behalf of the Board by

Jason Starr
Chief Executive
26 April 2018

Adjusted EBITDA
2017

Adjusted basic EPS
2017



Basic EPS
2017

GOVERNANCE

BOARD OF DIRECTORS

For the year ended 31 December 2017

MIKE LOVE
69
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
46
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 a Director of all three Divisions and has an executive role with both Dillistone Systems and GatedTalent. Jason was appointed a non-executive director of AIM listed PCIPAL PLC from 1 January 2017.

Jason has a BA (Honours) Business Studies degree from the London Guildhall University.

RORY HOWARD
50
OPERATIONS DIRECTOR

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

ALEX JAMES
45
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 a Director of both Dillistone Systems and GatedTalent and sits on the Group Board with an overall responsibility for Product Development.

ALISTAIR MILNE 42

MD – DILLISTONE SYSTEMS

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 became Managing Director of Dillistone Systems in October 2017, previously being the Director of Support Services.

JULIE POMEROY 62

FINANCE DIRECTOR

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

GILES FEARNLEY 63

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

For the year ended 31 December 2017

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 further describes the Company's approach to corporate governance.

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 comprises 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 are an agenda item at each Board meeting.

- Relationship with Company Auditor
  The Auditor has 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 as well as ad hoc meetings, 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

For the year ended 31 December 2017

Service contracts

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

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

Non-Executive Directors' remuneration

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

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

Executive Directors' remuneration

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

Basic salary

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

Performance related pay scheme

There are two performance related pay schemes for Executive Directors. The first is an annual bonus scheme which is based upon the achievement of certain profit and commercial targets for the Group, as appropriate. The Executive Directors' bonus charged in the 2017 financial year is £17,000 (2016: £35,000) including Employer's National Insurance.

The second scheme 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 23 for further details). The awards made in the period are included in the LTIP tables below.

Directors' remuneration

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	**2017 £'000**	2016 £'000
Executive Directors						
J S Starr	115	3	15	–	**133**	137
R Howard	45	3	32	1	**81**	80
A D James	93	3	8	–	**104**	106
J P Pomeroy	89	3	12	1	**105**	105
A Milne	94	3	7	–	**104**	105
Non-Executive Directors						
M D Love	35		–	–	**35**	34
G R Fearnley	13		–	–	**13**	13
	484	15	74	2	**575**	580

* Salary is calculated after deducting salary sacrifice payments which totalled £40,000.

† Includes salary sacrifice payments which totalled £40,000.

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

LTIP award – % of salary arrangement

	Maximum payout awarded in period £'000	Paid in the year including Employer's NI £'000	**Total value of salary based LTIP awards carried at 31 December 2017* £'000**	Total value of all salary based LTIP awards carried at 31 December 2016* £'000
J S Starr	74	–	**8**	10
R Howard	40	–	**4**	5
	114	–	**12**	15

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

LTIP award – share options

	Number of options granted under LTIP scheme in year	**Total Number of options granted under LTIP scheme at 31 December 2017**	Total Number of options granted under LTIP scheme at 31 December 2016
A D James	170,000	**330,830**	160,830
J P Pomeroy	170,000	**330,134**	160,134
A Milne	170,000	**327,659**	157,659
	510,000	**988,623**	478,623

The Options granted in the year were at a price of 58p and carry the same performance conditions as the LTIP cash bonus awards. No options were exercised in the year.

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 5p each	
	At 31 December 2017	At 31 December 2016
J S Starr	**3,577,591**	3,577,591
R Howard	**3,300,000**	3,300,000
A D James	**112,744**	112,744
M D Love	**989,754**	989,754
G R Fearnley	**453,435**	453,435
A Milne	**59,109**	59,109
J P Pomeroy	**63,733**	63,733

The Dillistone Group Plc also issued an 8.15% convertible loan note in which the Directors participated. Their holdings are as follows:

	8.15% convertible loan notes
	At 31 December 2017
J S Starr	**£24,250**
R Howard	**£24,250**
A D James	**£1,000**
M D Love	**£250,000**
G R Fearnley	**£75,000**
J P Pomeroy	**£10,000**

The Loan Notes carry an interest coupon of 8.15% pa over their maximum term of 36 months, with a conversion price of 71.6p per new Dillistone ordinary share. The interest payments are payable quarterly in arrears and will be satisfied through the issue of further new ordinary shares or in cash at the individual Director's election.

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

	Options over ordinary shares of 5p each	
	At 31 December 2017	At 31 December 2016
A D James	**330,830**	160,830
J P Pomeroy	**341,657**	164,761
A Milne	**332,286**	162,286
	1,004,773	487,877

DIRECTORS' REPORT

For the year ended 31 December 2017

The Directors present their report and financial statements for the year ended 31 December 2017.

Results and dividends

The consolidated statement of comprehensive income for the year is set out on page 29.

A final dividend of 0.5p (2016 2.8p) will be paid, subject to Shareholder approval, on 13 July.

Directors

The following Directors have held office since 1 January 2017:

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 21.

Jason Starr and Alex James are proposed for re-election at the forthcoming AGM. Both have a service contract with a one year notice period. Mike Love has been a Non-Executive Director for over nine years and therefore will offer himself for re-election annually.

Financial risk management

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

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.

Future developments

The Directors consider that the continued investment in product and market development will allow the business to grow organically in its core markets. The combination of organic growth along with strategic acquisitions will support the expected growth as outlined in the Chairman's Statement and the Strategic Report.

Research and development activities

The Group continues its development programme of software for the recruitment market including the research and development of new products and enhancement to existing products. The Directors consider the investment in research and development to be fundamental to the success of the business in the future.

Post balance sheet events

There are no post balance sheet events to report.

Overseas branch operations

The Group has a branch operating in Germany. Details of all subsidiaries and their locations are detailed in note 15.

Annual General Meeting

The Company's Annual General Meeting will be held at 50 Leman St, London, E1 8HQ on 26 June 2018 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

A resolution proposing the reappointment of BDO LLP as Auditor to the Group and 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. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading on the Alternative Investment Market. The Directors have elected under company law to prepare the Group and 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 Group and Company for that period.

In preparing the Group and Company 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 they have been prepared in accordance with IFRSs adopted by the EU;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and 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.

Website publication

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

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.

On behalf of the Board

J P Pomeroy
Company Secretary
26 April 2018

FINANCIAL STATEMENTS

Independent Auditor's Report

to the members of Dillistone Group Plc
For the year ended 31 December 2017

Opinion

We have audited the financial statements of Dillistone Group Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the consolidated statement of comprehensive income, the consolidated and company statement of changes in equity, the consolidated and company statement of financial position, the consolidated and company cash flow statement; and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements 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.

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 2017 and of the group's loss 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.

Basis for opinion

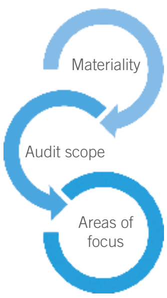
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview



Group materiality was £143,000 (2016: £150,000), which represents 1.50% (2016: 1.50%) of total revenue. Component materiality and other considerations are detailed in the materiality section below.

We identified five centrally controlled components (either those operations required to have individual audit opinions issued under the Companies Act 2006, or those that contributed greater than 15% of group revenue), which, in our view, required an audit of their complete financial information.

Further review procedures were performed on both centrally and foreign controlled operations in the US by the group audit team at the group's head office. BDO network component auditors were engaged to perform specific audit procedures on the operations located in Australia.

We have identified and reported on two key audit matters, including Capitalised Development and Revenue Recognition (as detailed below).

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Description of key audit matter	Our response
Capitalised development costs	Recognition of internally developed intangible assets was considered to be a key audit matter, given the involvement of significant judgement, including: • Determining the distinction between research and development costs; and • Determining the value of salary costs relating to members not in the development team to be capitalised. Management have also utilised significant judgement in assessing the technological and commercial feasibility of the projects. As described in note 1.12, the group capitalises costs incurred on product development relating to the design and development of new or enhanced products. Details of the products concerned are given in the "Dillistone Group at a Glance" section of the annual report on pages 04 and 05.	Our audit procedures involved: • Making enquiries of "Heads of Development" within the group to understand procedures performed to capitalise internally generated intangible assets. • Reviewing all project summary reports for all ongoing and completed projects during the year for which costs were capitalised. • Consideration of management's assessment of technical feasibility. • Where appropriate, confirmation of the existence of an active market through consideration of sales activity. • For a sample of capitalised payroll costs, obtained and reviewed employment contracts and timecards.
Recognition of revenue	The group's revenue recognition policy can be found in note 1.4 to the financial statements. We consider a significant risk of material misstatement to arise from the recognition of revenue around the year end. Further, the offering of bonus schemes and incentive plans increases the risk that sales may be overstated due to fraud. Therefore the key audit matter is the existence of revenue around the year end, including the recognition of the correct apportionment of revenue in the year and the related amount deferred at the year end.	We tested that consistent revenue recognition procedures have been adopted during the year by reviewing a selection of contracts, tracing the satisfaction of performance obligations, cash receipts and revenue postings into the income statement. We performed testing over all material revenue streams, including: • Applying predictive analytical testing procedures for contract revenue earned during the year and investigated all movements that were not consistent with independent expectations set. All inputs used to set those expectations were tested substantively. • Verifying a sample of bespoke and non-recurring orders received in the year, reconciling to underlying agreements, cash receipt and appropriate trigger events for revenue recognition. • Selecting a sample of entries deferred at year end, tracing these back to the cash receipt and expected delivery of performance obligations. • Reviewing a sample of revenue items posted either side of year end to confirm revenue cut-off procedures have been correctly applied.

Independent Auditor's Report continued

to the members of Dillistone Group Plc
For the year ended 31 December 2017

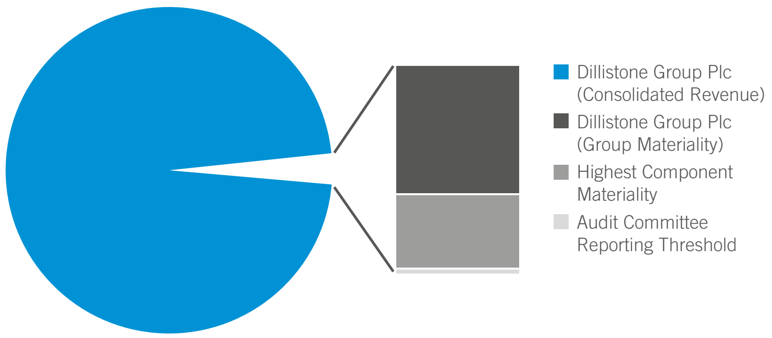
Our application of materiality

We apply the concept of materiality in performing our audit and evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £7,150 (2016: £7,500). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

Overall group materiality	£143,000 (2016: £150,000)
Basis for determining	1.50% of total group revenue (2016: 1.50%)
Rationale for benchmark applied	The ability of the group to generate continued and new sources of revenue is imperative for management to conclude on the market feasibility of software projects and the ability to capitalised costs in accordance with IAS 38. Furthermore, as a significant driver of profit, revenue growth impacts the achievement of key performance indicators resulting in bonus schemes and incentive plans offered by the group.
Parent company materiality	£108,000 (2016: £120,000)



Component materiality

Component materiality is established when performing audits on complete financial information of subsidiaries within the group where the subsidiary is considered significant to the group.

We determined component materiality as follows:

Range of component materiality	3% to 93% (2016: 2% to 80%) of group materiality

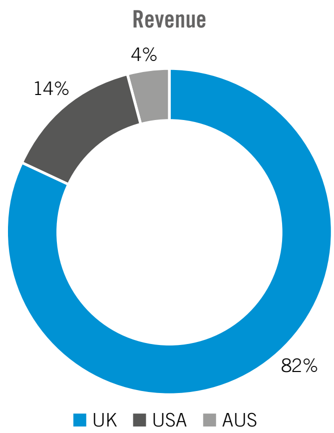
An overview of the scope of our audit

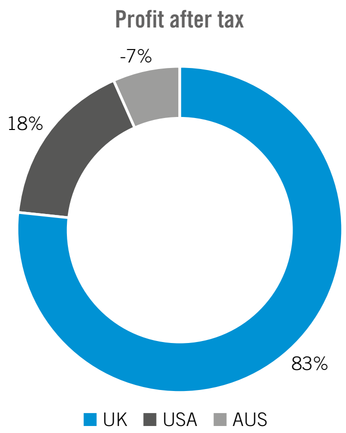
Our group audit was scoped by obtaining an understanding of the group and its environment, including the group's system of internal control, and assessing the risks of material misstatement in the financial statements at the group level.

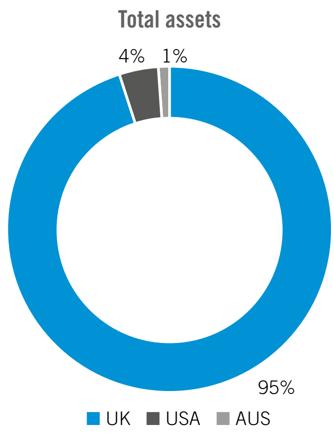
In determining the scope of our audit we considered the level of work to be performed at each component in order to ensure sufficient assurance was gained to allow us to express an opinion on the financial statements of the Group as a whole. We tailored the extent of the work to be performed at each component, either by us, as the group audit team or component auditors within the BDO International network, based on our assessment of the risk of material misstatement at each component. We identified five centrally controlled components as significant, and have audited these for group reporting purposes.

The group audit team centrally performed the audit of 82% (2016: 85%) of group revenue and 95% (2016: 89%) of total assets using the materiality levels set out above.

For two of the components not considered significant, the component auditors performed specific scope procedures based on their relative size, risks in the business and our knowledge of those entities appropriate to respond to the risk of material misstatement. Review and specific scope procedures were performed by the group audit team on the remaining three reporting components not considered significant to the group.







Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Independent Auditor's Report continued

to the members of Dillistone Group Plc
For the year ended 31 December 2017

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

David Butcher (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London
26 April 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Revenue	3	**9,582**	9,963
Cost of sales		**(1,536)**	(1,478)
Gross profit		**8,046**	8,485
Administrative expenses		**(8,560)**	(8,073)
Operating (loss)/profit	6	**(514)**	412
Adjusted operating profit before acquisition related and one-off items	2	**309**	1,463
Acquisition related and one-off items	5	**(823)**	(1,051)
Operating (loss)/profit		**(514)**	412
Financial income	8	**1**	3
Financial cost	8	**(12)**	(23)
(Loss)/profit before tax		**(525)**	392
Tax income	9	**454**	134
(Loss)/profit for the year		**(71)**	526
Other comprehensive income			
Items that will be reclassified subsequently to profit and loss:			
Currency translation differences		**(24)**	16
Total comprehensive income for the year		**(95)**	542
Earnings per share			
Basic	10	**(0.36)p**	2.68p
Diluted	10	**(0.36)p**	2.62p

The notes on pages 35 to 60 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Convertible loan reserve £'000	Share option £'000	Foreign exchange £'000	Total £'000
Balance at 31 December 2015	983	1,631	365	4,008	–	71	101	7,159
Comprehensive income								
Profit for the year ended 31 December 2016	–	–	–	526	–	–	–	526
Other comprehensive income								
Exchange differences on translation of overseas operations	–	–	–	–	–	–	16	16
Total comprehensive income	–	–	–	526	–	–	16	542
Transactions with owners								
Share option charge	–	–	–	2	–	14	–	16
Dividends paid	–	–	–	(811)	–	–	–	(811)
Total transactions with owners	–	–	–	(809)	–	14	–	(795)
Balance at 31 December 2016	**983**	**1,631**	**365**	**3,725**	–	**85**	**117**	**6,906**
Comprehensive income								
(Loss) for the year ended 31 December 2017	–	–	–	(71)	–	–	–	(71)
Other comprehensive income								
Exchange differences on translation of overseas operations	–	–	–	–	–	–	(24)	(24)
Total comprehensive income	–	–	–	(71)	–	–	(24)	(95)
Transactions with owners								
Share option charges	–	–	–	4	–	16	–	20
Issue of convertible loan note	–	–	–	–	14	–	–	14
Dividends paid	–	–	–	(551)	–	–	–	(551)
Total transactions with owners	–	–	–	(547)	14	16	–	(517)
Balance at 31 December 2017	**983**	**1,631**	**365**	**3,107**	**14**	**101**	**93**	**6,294**

The notes on pages 35 to 60 are an integral part of these consolidated financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2017

	Share capital £'000	Share premium £'000	Merger reserve £'000	Convertible loan reserve £'000	Retained earnings £'000	Share option £'000	Total £'000
Balance at 31 December 2015	983	1,631	365	–	1,577	71	4,627
Comprehensive income							
Total comprehensive income for the year ended 31 December 2016	–	–	–	–	1,057	–	1,057
Transactions with owners							
Share option charge	–	–	–	–	2	14	16
Dividends paid	–	–	–	–	(811)	–	(811)
Total transactions with owners	–	–	–	–	(809)	14	(795)
Balance at 31 December 2016	**983**	**1,631**	**365**	**–**	**1,825**	**85**	**4,889**
Comprehensive income							
Total comprehensive income for the year ended 31 December 2017	–	–	–	–	1,311	–	1,311
Transactions with owners							
Share option charge	–	–	–	–	4	16	20
Issue of convertible loan	–	–	–	14	–	–	14
Dividends paid	–	–	–	–	(551)	–	(551)
Total transactions with owners	–	–	–	14	(547)	16	(517)
Balance at 31 December 2017	**983**	**1,631**	**365**	**14**	**2,589**	**101**	**5,683**

The notes on pages 35 to 60 are an integral part of these consolidated financial statements.

Consolidated and Company Statements of Financial Position

As at 31 December 2017

		Group		Company	
		2017	2016	2017	2016
	Note	£'000	£'000	£'000	£'000
ASSETS					
Non-current assets					
Goodwill	12	**3,415**	3,415	**–**	–
Other intangible assets	13	**4,881**	5,263	**–**	–
Property, plant and equipment	14	**164**	215	**–**	–
Investments	15	**–**	–	**7,602**	7,601
		8,460	8,893	**7,602**	7,601
Current assets					
Inventories	16	**3**	5	**–**	–
Trade and other receivables	17	**1,677**	2,196	**934**	349
Cash and cash equivalents	19	**1,390**	1,537	**99**	43
		3,070	3,738	**1,033**	392
Total assets		**11,530**	12,631	**8,635**	7,993
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	21	**983**	983	**983**	983
Share premium		**1,631**	1,631	**1,631**	1,631
Merger reserve		**365**	365	**365**	365
Convertible loan reserve		**14**	–	**14**	–
Retained earnings		**3,107**	3,725	**2,589**	1,825
Share option reserve	23	**101**	85	**101**	85
Translation reserve		**93**	117	**–**	–
Total equity		**6,294**	6,906	**5,683**	4,889
Liabilities					
Non-current liabilities					
Trade and other payables	18	**12**	15	**12**	15
Borrowings	20	**386**	–	**386**	–
Deferred tax liability	9	**668**	784	**–**	–
Current liabilities					
Trade and other payables	18	**4,335**	4,599	**2,549**	2,931
Borrowings	20	**5**	158	**5**	158
Current tax payable		**(170)**	169	**–**	–
Total liabilities		**5,236**	5,725	**2,952**	3,104
Total liabilities and equity		**11,530**	12,631	**8,635**	7,993

The profit for the financial year for the parent Company was £1,311,000 (2016: £1,057,000).

The notes on pages 35 to 60 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 2018. They were signed on its behalf by:

J P Pomeroy
Director

Company Registration No. 4578125

Consolidated Cash Flow Statement

As at 31 December 2017

	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Operating activities				
(Loss)/profit before tax	(525)		392	
Adjustment for:				
Financial income	(1)		(3)	
Financial cost	12		23	
Depreciation and amortisation	1,938		2,069	
Share option expense	20		16	
Foreign exchange adjustments arising from operations	(12)		31	
Operating cash flows before movement in working capital:	1,432		2,528	
(Increase) / decrease in receivables	573		(487)	
Decrease in inventories	2		11	
Increase / (decrease) in payables	(123)		62	
Taxation refunded/(paid)	(12)		24	
Net cash generated from operating activities		1,872		2,138
Investing activities				
Interest received	1		3	
Financial cost	(7)		(8)	
Purchases of property, plant and equipment	(55)		(70)	
Investment in development costs	(1,439)		(1,056)	
Contingent and deferred consideration paid	(219)		(212)	
Net cash used in investing activities		(1,719)		(1,343)
Financing activities				
Net proceeds from convertible loan note	400		–	
Bank loan repayments made	(158)		(167)	
Dividends paid	(551)		(811)	
Net cash used in financing activities		(309)		(978)
Net decrease in cash and cash equivalents		(156)		(324)
Cash and cash equivalents at beginning of year		1,537		1,595
Effect of foreign exchange rate changes		9		125
Cash and cash equivalents at end of year		1,390		1,537

The notes on pages 35 to 60 are an integral part of these consolidated financial statements.

Company Cash Flow Statement

For the year ended 31 December 2017

	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Operating activities				
Profit before tax	1,311		1,057	
Adjustment for:				
Financial cost	12		23	
Share option expense	20		16	
Operating cash flows before movements in working capital	1,343		1,096	
Increase in receivables	(583)		(4)	
(Decrease)/increase in payables	(168)		90	
Net cash generated from operating activities		592		1,182
Investing activities				
Financial cost	(7)		(8)	
Acquisition of subsidiaries	(1)		–	
Contingent consideration paid	(219)		(212)	
Net cash used in investing activities		(227)		(220)
Financing activities				
Net proceeds from convertible loan note	400		–	
Bank loan repayments made	(158)		(167)	
Dividends paid	(551)		(811)	
Net cash used in financing activities		(309)		(978)
Net increase/(decrease) in cash and cash equivalents		56		(16)
Cash and cash equivalents at beginning of year		43		59
Cash and cash equivalents at end of year		99		43

The notes on pages 35 to 60 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the year ended 31 December 2017

Dillistone Group Plc (the 'Company') is a company incorporated in England and Wales. The financial statements are presented in thousand Pounds Sterling. The principal activities have been detailed in the Strategic Report and the registered office is 50 Leman St, London, E1 8HQ.

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:

Capitalisation and amortisation of internal development expenditure

Management exercises judgement in establishing both the technical feasibility of completing an intangible asset which can be used internally or sold and the degree of certainty that a market exists for the asset, or its output, for the generation of future economic benefits. In addition, amortisation rates are based on estimates of the useful economic lives and residual values of the assets involved. The assessment of these useful economic lives is made by projecting the economic lifecycle of the asset which is subject to alteration as a result of product development and innovation. Amortisation rates are changed where economic lives are re-assessed and technically obsolete items written off where necessary. The carrying value of capitalised development is reviewed for impairment indicators at each accounting period end. See note 13. In addition, management use a best estimate to determine the amount of Directors' costs that are capitalised.

Impairment of goodwill, other intangible assets and investments

There are a number of assumptions management has considered in performing impairment reviews of goodwill, other intangible assets and investments 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, 13 and 15.

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. See note 17.

Valuation of separately identifiable intangible assets

As detailed in note 1.8, separately identifiable intangible assets are identified and amortised over a defined period. The Directors use acknowledged approaches eg: relief from royalty method, capital asset pricing model, excess earnings valuation method but these are reliant upon certain judgements and assumptions which they determine are reasonable by reference to companies in similar industries.

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 23.

Judgements in applying the Group's accounting policies

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

Notes to the Financial Statements continued

For the year ended 31 December 2017

1. Accounting policies (continued)

Customers' practical acceptance of licence software

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

Capitalisation of internal development expenditure

Management exercises judgement in establishing both the technical feasibility of completing an intangible asset which can be used internally or sold and the degree of certainty that a market exists for the asset, or its output, for the generation of future economic benefits. See 'Capitalisation and amortisation of internal development expenditure' in Significant estimates above for further details.

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 8 to 14. In addition, note 25 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 cashflow 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 at least 12 months from the date of approval of these financial statements. 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 2017. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 31 December.

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

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

1.4 Revenue

General

Revenue to be recognised is the fair value of the total amount receivable by the Group for supplies of licences and services. VAT or similar local taxes and trade discounts are excluded.

Licencing (excluding Software as a Service "SaaS")

The Group licenses software under licence agreements. Perpetual licence fee revenues are recognised on practical acceptance of the software, when all obligations have been substantially completed. This is when the customer has accepted the product ie the "live" date, 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 (including installation and training)

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

1. Accounting policies (continued)

Product support, hosting and SaaS

Revenues from support, hosting or SaaS agreements are recognised over the period to which they relate but only after practical acceptance of the software, as defined above, has been received. The contractual arrangements normally separate out and apportion a value to each deliverable and this value is an approximation of the fair value of the deliverable. 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 have a fixed expiry period after which the customer has no legally enforceable right to claim on the tokens, and hence all risks & rewards have been transferred and performance obligations have been fulfilled. Revenue is recognised on use or on expiry of the tokens.

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.

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

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

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

1.6 Long term incentive plan ("LTIP") – 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 in the statement of comprehensive income.

1.7 Long term incentive plan ("LTIP") – share option based award

The LTIP awards can be share based or cash based. The number of share option granted under these awards are based on a percentage of salary with performance conditions related to the growth in earnings per share of the Group. These awards can be exercised between three and ten years after the date of the grant. This element is accrued and recognised in the statement of comprehensive income.

1.8 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.

Notes to the Financial Statements continued

For the year ended 31 December 2017

1. Accounting policies (continued)

1.9 Adjusted operating profit

Adjusted operating profit excludes acquisition costs and related intangible amortisation and movements in contingent consideration and other one-off costs which can include, as an example, the additional amortisation charge required in re-estimating the useful economic life of an intangible asset.

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

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

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

1.11 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.

1.12 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 subcontractor 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 is amortised over its useful life of five years, with amortisation commencing in the month of costs being incurred. Maintenance costs are expensed. Amortisation of new products commences once a product is available for use.

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. In accordance with IAS 38, no research costs are capitalised to the balance sheet, but are expensed 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 3 to 5 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.

1. Accounting policies (continued)

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

Intangible assets:	**Estimated life**
Brand and IP	15 years
Acquired developed technology	6–11.25 years
Contractual customer relationships	1.25 years
Non-contractual customer relationships	6–10.25 years

The useful economic life of intangible assets are reviewed annually. The Group has reviewed its useful economic life in respect of non contractual relationships following the loss of a major contract in one part of the business. See note 13.

1.13 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	4–5 years straight line

1.14 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.

1.15 Financial liabilities

Other financial liabilities are classified 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 other 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 other '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.

1.16 Convertible loan notes

The proceeds received on issue of the Group's convertible loan note are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert. Subsequently, the debt component is accounted for as a financial liability measured at amortised cost until extinguished on conversion or maturity of the loan note. The remainder of the proceeds is allocated to the conversion option and is recognised in the 'Convertible loan note reserve' within Shareholders' equity, net of income tax effects.

Notes to the Financial Statements continued

For the year ended 31 December 2017

1. Accounting policies (continued)

1.17 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.

1.18 Leases

Leases taken by the Group are assessed individually as to whether they are finance leases or operating leases. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease rental payments are recognised as an expense in the income statement on a straight-line basis over the lease term. The benefit of lease incentives is spread over the term of the lease.

1.19 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.

1.20 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.

1.21 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.
- 'Convertible loan note reserve' represents the equity element arising on the issue of a loan note with rights to an equity conversion.
- '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.

1.22 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 functional currency 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.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

1. Accounting policies (continued)

1.23 Income taxes

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

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

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

1.24 Defined contribution pension scheme

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

1.25 New accounting standards to update

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2017 have had a material impact on the Group or parent Company.

The following standards have been issued by the IASB and have been adopted by the EU but not adopted early by the Group:

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

IFRS 9 – Financial instruments

This standard comes into effect for accounting periods beginning on or after 1 January 2018. Given the nature of the financial assets and liabilities of the Group and the parent Company, the key areas for consideration are trade receivables and intercompany receivables with the introduction of ‘expected credit loss’ calculations. Given the work performed thus far, no material valuation impact is anticipated.

IFRS 15 – Revenue from customer contracts

This standard comes into effect for accounting periods beginning on or after 1 January 2018. The standard applies a single, five-step model based on the principle of transfer of promised goods and services (performance obligations) to the customer. Revenue is recognised upon satisfaction of these performance obligations. Having carried out a detailed assessment of the types of contracts the Group has with its customers, it is expected that the new standard will have a material impact on reported revenue due to the change in the timing of revenue recognition. The Group expects to use the retrospective approach when adopting the standard.

With respect to IFRS 15 implementation, the most significant ways that Dillistone generates income from its customers are as follows:

- *Software as a Service (‘SaaS’) subscriptions* – the customer pays a regular fixed amount for the right to access both software and related support service. Revenue is currently recognised over the life of the subscription, which is unchanged under IFRS 15;
- *Outright licences* – the customer pays a one-off amount to purchase a licence conferring a perpetual right to use a version of the software. Currently, revenue is recognised at the point control passes to the customer (i.e. ‘live’ date). Under IFRS 15, licences sold with elective support contracts are separate performance obligations and continue to be recognised at a point in time. However, licences sold with mandatory support contracts consist of one performance obligation, with revenue recognition matching the support contract;
- *Product support* – the customer pays a regular fixed amount for the right to access technical support services and the right to future software upgrades. Support subscriptions can be mandatory or elective depending on the software version purchased. Performance obligations under support contracts are satisfied over the subscription life, thus revenue is recognised over time under IFRS 15, as it is currently;

Notes to the Financial Statements continued

For the year ended 31 December 2017

1. Accounting policies (continued)

- *Installation services* – the customer pays a fee for the software to be installed, with revenue currently recognised when the installation is complete. This will continue to be the case under IFRS 15 for most installations, which are not complex and could be completed by a third party. For complex installations, these combine with the licence to form one performance obligation, and revenue recognition consequently matches the licence;
- *Training* – the customer pays a fee to be trained in using the software. Training revenue is recognised under the existing standard when delivered. Under IFRS 15 this will continue to be the case for most training, as it is not essential to using the software. However, for training that is essential, training combines with the licence as one performance obligation with revenue recognition following the licence.

On the basis of the work performed thus far, the Group considers there to be no material adjustments to revenue arising from complex installations and essential training. The material impact on reported revenue arises from the combination of outright licence sales and mandatory support contracts into one performance obligation. This revenue will move from being recognised at a point in time to over time being the expected life of the support contract. We have taken the portfolio approach with respect to these contracts and have estimated an expected life of 5 years for them, which we intend to review on a periodic basis. Our work to date estimates an increase to 2017 revenue in the range of £0.1 - £0.3 million, and the change to retained earnings at 1 January 2017 to be a reduction in the range of £1.0 - £1.5 million. These calculations imply deferred income to be recognised in future periods in the range of £0.9 - £1.2 million. There will also be a corresponding tax deduction in respect of this adjustment in 2018.

IFRS 15 is not expected to have an impact on the parent Company.

IFRS 16 – Leases

This standard comes into effect for accounting periods beginning on or after 1 January 2019. The standard requires almost all leases to be recorded in the statement of financial position. This requires recognition of a right-of-use asset and lease liability. The lease liability is measured as the present value of the future lease payments, discounted at the interest rate implicit in the lease if determinable, or otherwise at the lessee's incremental borrowing rate. The asset is measured as equivalent to the lease liability, adjusted for other costs including initial direct costs or obligations under the lease such as restoration costs. The asset is subsequently depreciated on a straight line basis to the expected maturity date of the lease. The liability is increased by interest and reduced by the lease payments made. The impact of this standard is currently being assessed. See note 22 for detail on operating lease payment commitments.

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

	Note	Adjusted operating profits 2017 £'000	Acquisition related and one-off items 2017* £'000	2017 £'000	Adjusted operating profits 2016 £'000	Acquisition related items 2016* £'000	2016 £'000
Revenue		9,582	–	9,582	9,963	–	9,963
Cost of sales		(1,536)	–	(1,536)	(1,478)	–	(1,478)
Gross profit		8,046	–	8,046	8,485	–	8,485
Administrative expenses		(7,737)	(823)	(8,560)	(7,022)	(1,051)	(8,073)
Operating profit/(loss)		309	(823)	(514)	1,463	(1,051)	412
Financial income		1	–	1	3	–	3
Financial cost		(7)	(5)	(12)	(8)	(15)	(23)
Profit/(loss) before tax		303	(828)	(525)	1,458	(1,066)	392
Tax income/(expense)		303	151	454	(63)	197	134
Profit/(loss) for the year		606	(677)	(71)	1,395	(869)	526
Other comprehensive income net of tax:							
Currency translation differences		(24)	–	(24)	16	–	16
Total comprehensive income for the year net of tax		582	(677)	(95)	1,411	(869)	542
Earnings per share							
Basic	10	3.08p		(0.36)p	7.10p		2.68p
Diluted	10	3.08p		(0.36)p	6.95p		2.62p

* see accounts note 5

3. Segment reporting

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

Divisional segments

For the year ended 31 December 2017

	Dillistone £'000	Voyager £'000	GatedTalent £'000	Central £'000	Total £'000
Segment revenue	4,548	5,034	–	–	9,582
Segment EBITDA	778	1,200	(439)	(130)	1,409
Depreciation and amortisation expense	(589)	(511)	–	–	(1,100)
Segment result	189	689	(439)	(130)	309
Acquisition related amortisation	–	–	–	(838)	(838)
Acquisition related income	–	–	–	15	15
Operating profit/(loss)	189	689	(439)	(953)	(514)
Financial income	1	–		–	1
Loan interest	–	–		(7)	(7)
Acquisition related interest expenses	–	–		(5)	(5)
Loss before tax					(525)
Income tax income					454
Loss for the year					(71)
Additions of non-current assets	608	502	396	–	1,506

For the year ended 31 December 2016

	Dillistone £'000	Voyager £'000	Central £'000	Total £'000
Segment revenue	4,858	5,105	–	9,963
Segment EBITDA	1,434	1,093	(94)	2,433
Depreciation and amortisation expense	(1,229)	(461)	–	(1,690)
Segment result	205	632	(94)	743
Acquisition related amortisation	–	–	(379)	(379)
Acquisition related income	–	–	48	48
Operating profit/(loss)	205	632	(425)	412
Financial income	3	–	–	3
Loan interest	–	–	(8)	(8)
Acquisition related interest expenses	–	–	(15)	(15)
Profit before tax				392
Income tax income				134
Profit after tax				526
Additions of non-current assets	600	527	–	1,127

Notes to the Financial Statements continued

For the year ended 31 December 2017

3. Segment reporting (continued)

Products and services

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

Revenue

	2017 £'000	2016 £'000
Recurring income	7,474	7,027
Non-recurring income	1,644	2,370
Third party revenues	464	566
	9,582	9,963

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

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

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

4. Geographical analysis

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

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

Revenue

	2017 £'000	2016 £'000
UK	6,782	7,142
Europe	1,041	1,047
US	1,341	1,388
Australia	418	386
	9,582	9,963

Non-current assets by geographical location

	2017 £'000	2016 £'000
UK	8,453	8,886
US	5	6
Australia	2	1
	8,460	8,893

5. Acquisition related and other one-off items

	2017 £'000	2016 £'000
Included within administrative expenses:		
Estimated change in fair value of contingent consideration (note 24)	(15)	(48)
Amortisation of acquisition intangibles	379	379
Acceleration of amortisation of acquisition intangibles	459	–
Additional amortisation on change of estimated useful life of platform technology (note 13)	–	720
	823	1,051
Included within financial cost:		
Unwinding of discount on contingent consideration (note 8)	5	15
	828	1,066

6. Operating profit

	2017 £'000	2016 £'000
Operating profit is stated after charging:		
Depreciation	**105**	113
Amortisation	**1,833**	1,956
Realised net (gain)/loss on foreign exchange transactions	**7**	(10)
Research costs expensed	**13**	–
Operating lease rentals - land and buildings	**234**	288
Money purchase pension contributions	**319**	301
Fees receivable by the Group auditors:		
Audit of financial statements	**22**	18
Other services:		
Audit of accounts of subsidiary of the Company	**78**	56
Taxation compliance services	**18**	18
Tax advisory services	**6**	–

7. Employees

The average number of employees was:

	2017 Number	2016 Number
Operations	**111**	112
Management	**13**	13
Employee numbers	**124**	125

Their aggregate remuneration including Directors' remuneration comprised:

	2017 £'000	2016 £'000
Wages and salaries	**5,255**	5,004
Social security costs	**528**	527
Pension costs	**319**	301
Share based payments	**20**	16
LTIP share based	**1**	–
LTIP non share based	**(3)**	(1)
	6,120	5,847

The aggregate remuneration includes salary cost totalling £1,168,000 (2016: £1,045,000) that has 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:

	2017 £'000	2016 £'000
Wages and salaries	**936**	898
Social security costs	**116**	101
Pension costs	**107**	108
Share based payments charged	**2**	2
LTIP share based	**1**	–
LTIP non share based	**(3)**	(1)
	1,159	1,108

The Company's only employees are the Directors. Details of Directors' emoluments, share options and pension entitlements are given in the Report to the Shareholders on Directors' Remuneration on pages 20 to 21.

Notes to the Financial Statements continued

For the year ended 31 December 2017

8. Financial income and cost

	2017 £'000	2016 £'000
Interest receivable	1	3
Finance cost on bank loan	(2)	(8)
Finance cost on convertible loan	(5)	–
Unwinding of discount on contingent consideration	(5)	(15)
	(11)	(20)

9. Tax (income) / expense

	2017 £'000	2016 £'000
Current tax	(100)	178
Prior year adjustment – current tax	(238)	(91)
Total current tax	(338)	87
Deferred tax	36	(100)
Prior year adjustment – deferred tax	(1)	(50)
Deferred tax re acquisition intangibles	(151)	(68)
Prior year adjustment - deferred tax re acquisition intangibles	(–)	(3)
Total deferred tax	(116)	(221)
Tax (income) / expense for the year	(454)	(134)

Factors affecting the tax charge for the year

	2017	2016
(Loss)/profit before tax	(525)	392
UK rate of taxation	19.25%	20%
Profit before tax multiplied by the UK rate of taxation	(101)	78
Effects of:		
Overseas tax rates	1	31
Impact of deferred tax not provided	18	13
Enhanced R&D relief	(209)	(169)
Disallowed expenses	32	31
Rate differences re current tax and deferred tax	6	26
Rate difference between CT rate and rate of R&D repayment rate	38	–
Prior year adjustments	(239)	(144)
Tax (income) / expense	(454)	(134)

Deferred tax liability provided in the financial statements is as follows:

	Group			Company	
	2017 £'000	Movement £'000	2016 £'000	2017 £'000	2016 £'000
Internally generated intangible and fixed assets	341	26	315	–	–
Provisions	–	9	(9)	–	–
Acquisition intangibles	327	(151)	478	–	–
	668	(116)	784	–	–

9. Tax (income)/expense (continued)

	Group			Company	
	2017 £'000	Movement £'000	2016 £'000	2017 £'000	2016 £'000
Internally generated intangible and fixed assets	315	(152)	467	–	–
Provisions	(9)	1	(10)	–	–
Acquisition intangibles	478	(71)	549	–	–
	784	(222)	1,006	–	–

The UK corporation tax rate fell in April 2017 to 19% from 20% and accordingly the rate for the year is 19.25%. Deferred tax is provided in relation to the UK at rates of between 17% to 19% depending on when reversals are expected to occur. The tax credit is impacted by the higher rates of corporation tax payable in the US, offset by the R&D tax credits available to Dillistone Systems division, Voyager Software division and GatedTalent division. It has also been assumed that where there are tax losses arising as a result of R&D tax credits they will be surrendered for a tax repayment at the HMRC stated rate of 14.5%. The release of prior year provisions relates, in part, to the agreement of the prior years' tax positions of UK and US companies together with the formation of a tax group in Australia allowing surrender of losses between companies in the same jurisdiction and the utilisation of tax losses not previously recognised. The Group has gross tax losses and temporary timing differences of £205,000 (2016: £369,000) for which no deferred tax asset has been recognised as the timing of their utilisation is uncertain.

10. Earnings per share

	2017 Using adjusted operating profit	2017	2016 Using adjusted operating profit	2016
Profit/(loss) attributable to ordinary shareholders (note 2)	£606,000	£(71,000)	£1,395,000	£526,000
Weighted average number of shares	19,668,021	19,668,021	19,668,021	19,668,021
Basic earnings per share	3.08 pence	(0.36) pence	7.10 pence	2.68 pence
Weighted average number of shares after dilution	19,676,018	19,668,021	20,082,096	20,082,096
Fully diluted earnings per share	3.08 pence	(0.36) pence	6.95 pence	2.62 pence

Reconciliation of basic to diluted average number of shares:

	2017	2016
Weighted average number of shares (basic)	19,668,021	19,668,021
Effect of dilutive potential ordinary shares – employee share plans	7,997	414,075
Weighted average number of shares after dilution	19,676,018	20,082,096

There are 1,270,732 (2016: 638,257) share options not included in the above calculations.

The impact of the convertible loan notes in the period is not dilutive and therefore does not impact the calculation of the fully diluted earnings per share.

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 £1,311,000 (2016: £1,057,000) and has been approved by the Directors. This is stated after charging:

	2017 £'000	2016 £'000
Fees paid to the Company's auditors		
Audit of financial statements	22	18
Taxation compliance services	3	3
Tax advisory services	6	–

Notes to the Financial Statements continued

For the year ended 31 December 2017

12. Goodwill

Group	Goodwill £'000
Cost	
At 1 January 2016	3,415
Additions	–
At 31 December 2016	3,415
Additions	–
At 31 December 2017	**3,415**
Carrying amount	
At 31 December 2017	**3,415**
At 31 December 2016	3,415

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

The key assumptions used for value-in-use calculations are those regarding growth rates, increases in costs and discount rates. The discount rate is reviewed annually to take into account the current market assessment of the time value of money and the risks specific to the cash generating units and rates used by comparable companies. The pre-tax discount rate used to calculate value-in-use is in a range of 12% to 15.5% (2016: 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 was 2.5% (2016: 1.75%) 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

A decrease in the cashflow by 10% would result in an impairment of £365,000 for the Voyager and FCP consolidated and an increase in the discount rate to 16.5% would require an impairment of £249,000. For ISV the discount rate would need to increase to over 23% or cash flows would need to fall by over 35% to reduce the headroom to £nil. Cashflows in respect of Dillistone goodwill would need to reduce by over 80% or the discount rate to increase to over 87% to reduce the headroom to £nil.

13. Other intangible assets

Group	Development costs £'000	Purchased software £'000	Acquisition intangibles £'000	Total £'000
Cost				
At 1 January 2016	5,565	25	4,172	9,762
Additions	1,047	9	–	1,056
At 31 December 2016	6,612	34	4,172	10,818
Additions	1,358	93	–	1,451
At 31 December 2017	**7,970**	**127**	**4,172**	**12,269**
Amortisation				
At 1 January 2016	2,478	–	1,121	3,599
Charge for the year	1,576	1	379	1,956
At 31 December 2016	4,054	1	1,500	5,555
Charge for the year	991	4	838	1,833
At 31 December 2017	**5,045**	**5**	**2,338**	**7,388**
Carrying amount				
At 31 December 2017	**2,925**	**122**	**1,834**	**4,881**
At 31 December 2016	2,558	33	2,672	5,263

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 2017	126	229	522	1,795	2,672
Amortisation	(13)	(53)	(41)	(731)	(838)
At 31 December 2017	113	176	481	1,064	1,834

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. The Group has reviewed its useful economic life in respect of non contractual relationships following the loss of a major contract in one part of the business. The revised useful economic life was reduced to 6 years (from 10 years) and resulted in additional amortisation in the period of £459,000.

Purchased software is reviewed for impairment based on its continued use within the business.

In 2016, the change in the estimate of the useful economic life of platform technology resulted in a one-off increase to the amortisation charge for the year of £720,000.

The Company has no intangible assets.

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 2016	186	758	152	–	1,096
Currency impact	–	16	3	–	19
Additions	–	57	13	–	70
Disposals	–	(1)	–	–	(1)
At 31 December 2016	186	830	168	–	1,184
Currency impact	–	(6)	(1)	–	(7)
Additions	–	47	8	–	55
Reclassify	–	10	(10)	–	–
Disposals	–	(20)	–	–	(20)
At 31 December 2017	**186**	**861**	**165**	**–**	**1,212**
Depreciation					
At 1 January 2016	44	652	143	–	839
Currency impact	–	15	3	–	18
Charge for the year	38	71	4	–	113
Eliminated on disposal	–	(1)	–	–	(1)
At 31 December 2016	82	737	150	–	969
Currency impact	–	(6)	(1)	–	(7)
Charge for the year	38	62	5	–	105
Eliminated on disposal	–	(19)	–	–	(19)
At 31 December 2017	**120**	**774**	**154**	**–**	**1,048**
Carrying amount					
At 31 December 2017	**66**	**87**	**11**	**–**	**164**
At 31 December 2016	104	93	18	–	215

The Company has no property, plant and equipment.

Notes to the Financial Statements continued

For the year ended 31 December 2017

15. Non-current asset investments

Company

Cost	Investments in subsidiaries £'000
At 1 January 2016	7,599
Additions	2
At 31 December 2016	7,601
Additions	1
At 31 December 2017	**7,602**

The addition in the year related to the formation of GatedTalent. The 2016 addition related to the transfer of FCP Internet Limited from FCP Internet Holdings Limited to Dillistone Group Plc.

Investments are reviewed when evidence exists that their may be a loss in value or in certain circumstances where dividends are paid by the subsidiary. In 2017, following the loss of a major contract the Voyager/FCP investment has been reviewed as has the ISV investment following a dividend payment. The recoverable amount of the cash generating unit is based on value-in-use calculations Forecasts of future cash generation are prepared and these are discounted and compared to the carrying value of the investment. These calculations use cash flow projections covering a three year period based on financial budgets and a calculation of the terminal value, for the period following these formal projections.

The key assumptions used in these calculations are those regarding growth rates, increases in costs and discount rates. The pre-tax discount rate used was 15.5%. 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 was 2.5%.

The calculations for Voyager/FCP showed that no impairment was required. If cashflows reduced by more than 7% or the discount rate increased to 16.5% an impairment would be required. No impairment loss was required for ISV and cashflows would need to reduce by 37% or the discount rate to increase to more than 23% before impairment was considered necessary.

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	Dormant holding company	100%	England & Wales
GatedTalent Limited	Provision of software services	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

The registered addresses of related undertakings are as follows:

Company	Registered Address
Dillistone Group Plc	50 Leman St, London E1 8HQ
Dillistone Systems Limited	50 Leman St, London E1 8HQ
Dillistone Systems (Australia) Pty Limited	Suite 3, Level 3, 245 Castlereagh Street, Sydney, NSW 2000, Australia
Dillistone Systems (US) Inc	50 Harrison Street, Suite 201A, Hoboken, NJ 07030, USA
FCP Internet Limited	50 Leman St, London E1 8HQ
FCP Internet Holdings Limited	50 Leman St, London E1 8HQ
GatedTalent Limited	50 Leman St, London E1 8HQ
ISV Software Limited	50 Leman St, London E1 8HQ
Woodcote Software Limited	50 Leman St, London E1 8HQ
Voyager Software Limited	12 Cedarwood, Crockford Lane, Chineham Business Park, Basingstoke, RG24 8WD
Voyager Software (Australia) Pty Limited	Suite 3, Level 3, 245 Castlereagh Street, Sydney, NSW 2000, Australia

16. Inventories

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Licences for resale	**3**	5	**–**	–

17. Trade and other receivables

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Trade receivables - net	**1,377**	1,787	**–**	–
Group receivables	**–**	–	**915**	329
Other current assets	**37**	37	**–**	–
Prepayments and accrued income	**263**	372	**19**	20
	1,677	2,196	**934**	349

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 for bad debt is shown below:

	2017	2016
	£'000	£'000
At start of year	**97**	88
Movement in the year	**51**	9
At the year end	**148**	97

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

	2017	2016
	£'000	£'000
Current		
Past due date:	**1,205**	1,491
31–60 days overdue	**54**	121
More than 60 days overdue	**118**	175
Total	**1,377**	1,787

The bad debt provision is in respect of debt more than 30 days overdue.

The Company has no bad debt provision against intercompany receivables.

18. Trade and other payables

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Current liabilities				
Trade payables	**664**	685	**73**	56
Group payables	**–**	–	**2,135**	2,376
Deferred income	**2,589**	2,850	**–**	–
Accruals	**936**	689	**195**	124
Contingent consideration	**146**	375	**146**	375
	4,335	4,599	**2,549**	2,931
Non-current liabilities				
Cash settled LTIP	**12**	15	**12**	15
	12	15	**12**	15

Contingent consideration is valued at fair value.

Further details of the contingent consideration are given in note 24.

Notes to the Financial Statements continued

For the year ended 31 December 2017

19. Cash and cash equivalents

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Cash balances available on demand	**1,390**	1,537	**99**	43

20. Borrowings

	Group		Company	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Current bank borrowings	**–**	158	**–**	158
Current loan note borrowings	**5**	–	**5**	–
Non current loan note borrowings	**386**	–	**386**	–
Total borrowings	**391**	158	**391**	158

The Directors consider that the fair value of borrowings approximates to the carrying value except for the convertible loan note.

In 2017, the Company raised £400,000 from Directors and other PDMRs via a convertible loan note. The loan notes carry an interest coupon of 8.15% pa over their maximum term of 36 months, with a conversion price of 71.6p per new Dillistone ordinary share. The interest payments are payable quarterly in arrears and will be satisfied through the issue of further new ordinary shares or in cash at the individual loan note holder's election. Various rights are built into the agreement for early repayment or conversion. Based on other outline loan offers around the time of the fund raising, a 10% rate has been used as the borrowing rate without conversion. This rate has been used in the calculation of the equity adjustment required in respect of this loan which totals £14,000.

The borrowings consisted of a bank loan repayable over 3 years from HSBC Bank plc secured by a fixed and floating charge over the assets of the Group and is supported by a cross guarantee between the Company and the Group's principal subsidiaries. The loan was to provide part funding for the acquisition of ISV. The loan carries interest at 2.75% over UK base rate. This loan was repaid in 2017.

The loan included an option for early repayment at any time during the 3 year period. An early repayment fee of 1% of the amount prepaid must be made if the option is exercised. Management has 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.

Reconciliation of liabilities arising from financing activities

	2016	Cashflows	Non cash changes – equity adjustment	**Closing 2017**
	£'000	£'000	£'000	**£'000**
Long term borrowings				
Bank Loan	158	(158)	–	**–**
Convertible loan note	–	400	(14)	**386**
	158	242	(14)	**386**

	2015	Cashflows	Non cash changes – equity adjustment	Closing 2016
	£'000	£'000	£'000	£'000
Long term borrowings				
Bank Loan	325	(167)	–	158
	325	(167)	(–)	158

21. Share capital

	2017 £'000	2016 £'000
Allotted, called up and fully paid		
Ordinary shares of 5p each	983	983

No share options were exercised in the period (2017: nil).

	2017 Number	2016 Number
Shares issued and fully paid		
Beginning of the year	19,668,021	19,668,021
Shares issued on exercise of options	–	–
Shares issued and fully paid	19,668,021	19,668,021

22. Operating lease arrangements

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

At 31 December 2017, the Group had future total commitments under non-cancellable operating leases as follows:

	2017 £'000	2016 £'000
Commitments payable:	295	559
Within one year	158	262
Between two and five years	137	296

The Company has no operating leases.

23. Share options

Share based payments

There are three share option schemes in operation: an Enterprise Management Incentive Scheme (the 'EMI Scheme') which complies with the requirements of HMRC, a scheme which has not been approved by HMRC (the 'Unapproved Scheme') and a Share Save Scheme ("SAYE Scheme"). The terms and conditions of the EMI and Unapproved schemes are the same. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are normally forfeited if the employee leaves the Company before the options become available to exercise, which would normally be three years after grant. Performance conditions are associated with the LTIP options granted on 14 July 2015, 29 June 2016 and 9 November 2017. The Company launched its first SAYE scheme in 2016 with a second issue in 2017. Under this scheme discounts of up to 20% can be offered. The scheme has a linked savings contract of 3 years.

There were three grants of options in 2017. The weighted average share price of all grants in 2017 was 57.28p. 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
9 November 2017 LTIP/EMI	845,000	58p	58p	30%	3.3 years	0%	1.00%	2.0%
9 November 2017 EMI	90,000	58p	58p	30%	3.3 years	10%	1.00%	2.0%
9 November 2017 Sharesave	131,713	58p	52.2p	30%	3.3 years	10%	1.00%	2.0%

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

Notes to the Financial Statements continued

For the year ended 31 December 2017

23. Share options (continued)

There were two grants of options in 2016. The weighted average share price of all grants in 2016 was 78.34p. The fair values of the services received in exchange for share based payments were calculated using a Black-Scholes pricing model. The inputs into the model were as follows:

Date of grant	Number granted	Share price on issue date	Exercise price	Expected volatility	Vesting period	Leaver rate over vesting period	Risk-free rate	Expected dividend yield
29 June 2016 LTIP/EMI	441,500	78.50p	78.50p	30%	3.3 years	0%	1.00%	5.0%
14 October 2016 Sharesave	127,094	86.50p	77.80p	30%	3.3 years	10%	1.00%	5.0%

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

	2017		2016	
	No of options*	WAEP*	No of options*	WAEP*
Outstanding at the beginning of year	1,364,351	89.15	832,496	93.86
Granted during the year	1,066,713	57.28	568,594	78.34
Exercised during the year	(–)	–	(–)	–
Forfeited during the year	(63,619)	90.55	(36,739)	28.69
Outstanding at the end of the year	2,367,445	74.75	1,364,351	89.15
Exercisable at the year end	384,500	88.76	204,500	81.11

* Adjusted for the 2 for 1 bonus issue where appropriate

The Company's mid-market share price on 29 December 2017 was 65.5p. The average mid- market share price in 2017 was 71.26p.

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 £20,000 (2016: £16,000).

Share options remaining in the schemes are as follows:

Scheme type	Date of grant	Exercise from	Lapse date	Options remaining	Exercise price (p)
Unapproved	14/01/2011	14/01/2014	13/01/2021	30,000	58.33
EMI	21/09/2011	21/09/2014	20/09/2021	87,500	77.00
Unapproved	21/09/2011	21/09/2014	20/09/2021	16,000	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	204,000	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
EMI	29/06/2016	29/06/2019	28/06/2026	441,500	78.50
Sharesave	14/10/2016	01/11/2019	30/04/2020	109,975	77.80
EMI (LTIP)	09/11/2017	09/11/2020	08/11/2027	845,000	58.00
EMI	09/11/2017	09/11/2020	08/11/2027	90,000	58.00
Sharesave	09/11/2017	01/12/2020	31/5/2021	131,713	52.20
				2,367,445	

The weighted average remaining contractual life of options at 31 December 2017 was 7.8 years (2016: 7.6 years).

LTIP

LTIP awards 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.

In 2017, the charge in respect of the LTIP schemes, which are share based and require separate disclosure under IFRS 2, was £10,000.

24. Contingent consideration payable in respect of acquisitions

In September 2014 the Group acquired the entire share capital of ISV. As part of the acquisition, the vendors are entitled to contingent consideration based on revenue over the period to 30 September 2017. A payment of £219,000 was made in 2017. In the 2017 financial statements, the amount payable under the contingent consideration was decreased by £15,000 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 2017 totalled £5,000 (2016: £15,000).

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

- 30% of net revenues in the nine month period to 30 September 2017 less £25,000 (calculated at £146,000).

25. 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 2017 was:

At 31 December 2017

	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)	1,414	–	915	–
Cash and cash equivalents	–	1,390	–	99
Total	1,414	1,390	915	99

The interest rate profile of the Group's financial assets at 31 December 2016 was:

At 31 December 2016

	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)	1,824	–	329	–
Cash and cash equivalents	–	1,537	–	42
Total	1,824	1,537	329	42

Notes to the Financial Statements continued

For the year ended 31 December 2017

25. Financial instruments (continued)

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

At 31 December 2017

	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)	1,196	–	2,382	–
Trade and other payables (non-current liabilities)	12	–	12	–
Borrowings – convertible loan note	–	391	–	391
Contingent consideration (current liabilities)	146	–	146	–
	1,354	391	2,540	391

At 31 December 2016

	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)	925	–	2,550	–
Trade and other payables (non-current liabilities)	15	–	15	–
Bank borrowings	–	158	–	158
Contingent consideration (current liabilities)	375	–	375	–
	1,315	158	2,940	158

The bench marks 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.

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	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Trade and other receivables (current assets)	1,414	1,824	915	329
Cash and cash equivalents	1,390	1,537	99	42
Total	2,804	3,361	1,014	371

25. Financial instruments (continued)

(iii) Liquidity risk

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

As at 31 December 2017, the Group and Company's financial liabilities (excluding deferred income, payroll taxes, VAT and similar taxes) have contractual cashflows as summarised below:

Group

31 December 2017

	Carrying amount £'000	< 1 year £'000	1–2 years £'000	2–5 years £'000
Trade and other payables (current liabilities)	1,196	1,196	–	–
Contingent consideration (current liabilities)	146	146	–	–
Trade and other payables (non-current liabilities)	12	–	–	12
Borrowings	400	–	–	400
	1,754	1,342	–	412

31 December 2016

	Carrying amount £'000	< 1 year £'000	1–2 years £'000	2–5 years £'000
Trade and other payables (current liabilities)	925	925	–	–
Contingent consideration (current liabilities)	375	375	–	–
Trade and other payables (non-current liabilities)	15	–	–	15
Bank borrowings	158	158	–	–
	1,473	1,458	–	15

Company

31 December 2017

	Carrying amount £'000	< 1 year £'000	1–2 years £'000	2–5 years £'000
Trade and other payables (current liabilities)	2,382	2,382	–	–
Contingent consideration (current liabilities)	146	146	–	–
Trade and other payables (non-current liabilities)	12	–	–	12
Borrowings	400	–	–	400
	2,940	2,528	–	412

31 December 2016

	Carrying amount £'000	< 1 year £'000	1–2 years £'000	2–5 years £'000
Trade and other payables (current liabilities)	2,550	2,550	–	–
Contingent consideration (current liabilities)	375	375	–	–
Trade and other payables (non-current liabilities)	15	–	–	15
Bank borrowings	158	158	–	–
	3,098	3,083	–	15

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.

Notes to the Financial Statements continued

For the year ended 31 December 2017

25. Financial instruments (continued)

(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.

The Group aims to manage foreign exchange risk at a local level by matching the currency in which revenue is generated and expenses are incurred.

At the year end, the Group had assets totalling £1,837,000 and liabilities totalling £443,000 denominated in Euros (2016: assets totalling £1,307,000 and liabilities totalling £547,000), assets totalling £1,655,000 and liabilities totalling £997,000 denominated in US Dollars (2016: assets totalling £1,729,000 and liabilities totalling £1,119,000) and assets totalling £441,000 and liabilities totalling £447,000 denominated in Australian Dollars (2016: assets totalling £445,000 and liabilities totalling £403,000).

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

	Group	
	2017 £'000	2016 £'000
Euros	**31**	20
US Dollars	**6**	7
Australian Dollars	**(2)**	(1)
	35	26

At the year end, the Company had liabilities totalling £115,000 denominated in Euros (2016: liabilities totalling £115,000), assets totalling £257,000 denominated in US Dollars (2016: assets totalling £281,000) and assets totalling £36,000 denominated in Australian Dollars (2016: assets totalling £27,000).

For the Company a 5% increase in the value of each of the above currencies would have resulted in an impact on the income statement as follows:

	Company	
	2017 £'000	2016 £'000
Euros	**(6)**	(6)
US Dollars	**12**	15
Australian Dollars	**2**	1
	8	10

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, convertible loan note reserve, share option reserve, retained earnings and net cash. Net cash comprises borrowings less cash and cash equivalents.

	Note	**2017 £'000**	2016 £'000
Total borrowings	19	**391**	158
Less cash or cash equivalents		**(1,390)**	(1,537)
Net cash		**(999)**	(1,379)
Total equity		**6,294**	6,906
Total capital gearing ratio		**0%**	0%

25. Financial instruments (continued)

Summary of financial assets and liabilities by category

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

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Loans and receivables				
Cash and cash equivalents	**1,390**	1,537	**99**	42
Trade and other receivables	**1,414**	1,824	**915**	329
	2,804	3,361	**1,014**	371
Financial liabilities held at amortised cost				
Trade and other payables	**1,208**	940	**2,394**	2,594
Borrowings	**391**	158	**391**	158
Financial liabilities held at fair value				
Contingent consideration	**146**	375	**146**	375
	1,745	1,473	**2,931**	3,127

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 2017 and 31 December 2016:

	2017 £'000 Level 2	2016 £'000 Level 3
Contingent consideration:	**146**	375

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 2 and 3 are described below:

Contingent consideration (2017 – Level 2, 2016 – Level 3)

The fair value of contingent consideration relates to the acquisition of ISV Software and is estimated using a present value technique. The contingent consideration at 31 December 2017 (level 2) of £146,000 is included at fair value which has been calculated as payable based on the revenues of ISV Software to 30 September 2017. The contingent consideration at 31 December 2016 (level 3) of £375,000 is included at fair value which is mainly based on actual, budget or forecast revenues prepared by the finance team. The contingent consideration in respect of 2016 is discounted.

The discount rate used to discount the contingent consideration at 31 December 2016 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:

	2017 £'000	2016 £'000
At start of the year	**(375)**	(620)
Paid in the year	**–**	212
Movement in fair value recognised in profit or loss under finance costs	**–**	(15)
Movement in fair value recognised in profit or loss under administrative expenses	**–**	48
Reclassified to Level 2	**375**	–
At the year end	**–**	(375)

Notes to the Financial Statements continued

For the year ended 31 December 2017

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 £240,000 (2016: £353,000).

Details of earnings of key management is included in note 7. Such remuneration includes a divisional director's spouse who is employed as a software engineer. The amounts outstanding at the year end due to key management was £30,000 (2016: £40,000) (excluding Employer's NI) and related to estimated bonus payments payable in relation to 2017. In addition, Dr Love's fees of £35,000 are paid to Pond Associates LLP, a business owned by him. The balance outstanding payable to Dr Love at the year end was £27,000 (2016: £9,000).

The Directors and certain key management participated in the issue of convertible loan notes in 2017 as follows:

Mike Love	£250,000
Giles Fearnley	£75,000
Jason Starr	£24,250
Rory Howard	£24,250
Julie Pomeroy	£10,000
Alex James	£1,000
Simon Warburton	£8,000
Paul Mather	£7,500

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 £nil (2016: £56,000) and a dividend of £nil from its subsidiary company Dillistone Systems (US) Inc (2016: £81,000). At the year end, Dillistone Systems (US) Inc owed £257,000 (2016: owed £281,000) to the Company.

During the current year Dillistone Systems Limited paid a dividend of £nil (2016: £1,000,000) to Dillistone Group Plc and a management charge of £306,000 (2016: £296,000). At the year end Dillistone Systems Limited was owed £752,000 (2016: £458,000).

The Company received a management charge during the year from Dillistone Systems (Australia) Pty Limited of £nil (2016: £17,000) and at the year end was owed £36,000 (2016: £27,000).

Voyager Software paid a management charge of £144,000 (2016: £144,000) and owed the Company £187,000 at the year end (2016: £201,000).

FCP Internet Limited paid a management charge of £84,000 (2016: £84,000) and a dividend of £1,000,000 (2016: £nil) and was owed by the Company £754,000 at the year end (2016: owed by the Company £1,293,000).

A management charge of £60,000 (2016: £60,000) was received from ISV Software together with a dividend of £400,000 (2016: £nil) and at the year end the Company owed ISV £208,000 (2016: £414,000).

GatedTalent Limited paid a management charge of £86,000 (2016: £nil) and owed the Company £373,000 at the year end (2016: £nil).

FCP Internet Holdings Limited was owed by the Company £2,000 at the year end (2016: owed by the Company £2,000).

Woodcote Software Limited owed the Company £13,000 (2016: £13,000).

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

28. Dividends

The dividends paid in 2017 and 2016 were £551,000 (2.8p per share) and £811,000 (4.125p per share). A final dividend in respect of the year ended 31 December 2017 of 0.5p per share will be paid on 13 July 2018. These financial statements do not reflect this dividend.

DIRECTORS AND ADVISERS

Directors

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

Secretary

J P Pomeroy

Company number

4578125

Registered office

50 Leman St
London
E1 8HQ

Independent auditor

BDO LLP
55 Baker Street
London
W1U 7EU

Principal bankers

HSBC Bank Plc
Basingstoke Commercial Centre
8 London Street
Basingstoke
RG21 7NU

Solicitors

Blake Morgan LLP
Apex Plaza
Forbury Road
Reading RG1 1AX

Nominated adviser

WH Ireland Limited
24 Martin Lane
London
EC4R 0DR

Broker

WH Ireland Limited
24 Martin Lane
London
EC4R 0DR

Registrars

Link Assets Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Consultation, design and production by:
jonesandpalmer.co.uk

DSG
Dillistone Group Plc

50 Leman Street
London
E1 8HQ
T: +44 (0)20 7749 6100

www.dillistonegroup.com