ANNUAL REPORT 2018

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Dillistone Group Plc

DILLISTONE

ANNUAL REPORT 2018

DILLISTONE GROUP PLC

EMPOWERING RECRUITMENT GLOBALLY THROUGH TECHNOLOGY

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.

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HIGHLIGHTS

0.61p
Adjusted basic EPS[3]
(2017: 3.73p)

82%
Recurring revenues[1]
(restated 2017: 82%)

- Recurring revenues[1] represent 82% (restated 2017: 82%) of Group revenue
- Adjusted operating profit[2] of £0.055m (restated 2017: £0.459m) before acquisition intangible writes offs, reflecting the loss of the major contract announced in 2017 which reduced revenues by £0.625m compared to 2017 in a ten-month period
- Loss for the year of £0.260m (restated 2017: profit £0.057m)
- Adjusted basic EPS[3] of 0.61p (2017: 3.73p)
- The Group continued to generate cash from operating activities resulting in cash at 31 December 2018 of £0.725m (2017: £1.390m) with borrowings of £0.404m (2017: £0.391m).

[2017 numbers have been restated for the introduction of IFRS 15, the new revenue recognition standard.]

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

"2018 was clearly a challenging year for the Group. The executive team has nevertheless worked tirelessly and, despite the challenges faced during the year of GDPR, the loss of a major client, the continued investment in new products and, during 2018, the implications of re-structuring to reduce our cost base, we are now well on our way to restoring Dillistone to healthy operating profits on a sustainable footing."

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

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.

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 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 50 people.

Products

FileFinder is designed specifically for the executive recruiting market with FileFinder Anywhere being the latest generation of the suite. FileFinder Anywhere is available in two forms: Essentials and Premium. FileFinder is an executive search database, CRM system, research tool, report writer and project management solution all rolled into one. It is designed to support every element of the search process. 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 with first revenue seen in 2018 as a network allowing executives to share information with executive recruiters in a GDPR compliant manner. GatedTalent generates revenue from both Executive Search firms (where it has a similar client base to the Dillistone Systems division) and directly from Executives.

Products

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 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 clients working on a contingency basis, and continues to do so to this day. In September 2012, Voyager Software launched its Infinity product which has been and continues to be 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. Furthermore, its ongoing development continues to enhance its capabilities and widen its market appeal. 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 Division 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 globally by many thousands of users in different-sized recruitment businesses. The Division has offices in the UK and Australia and employs around 60 people.

Products

Voyager front office:

Voyager Infinity manages the work of recruiters working to fill permanent, contract and both short and long term temporary vacancies and delivers 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 monthly cost.

Voyager Infinity Connect Mobile App is the 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.

TempNinja is a smartphone app for temporary workers that increases their engagement with recruiters, both on and off assignment. It seamlessly integrates with Voyager's Infinity and VDQ! front office applications, as well as being available as a white label option for customers wanting to promote their own brand.

Through FCP Internet, the Division also provides its **evolveTM** 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 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 2017, ISV launched ISV Online, incorporating all the best elements from its original testing platform, FastPath.

CHAIRMAN'S STATEMENT

For the year ended 31 December 2018

2018 was a challenging year for the business. The loss of a major client, announced in Summer 2017 but materialising in February 2018, had a year on year revenue impact of around £0.625m.

Meanwhile, the new General Data Protection Regulations meant that the Group, like all technology businesses, had to invest heavily in compliance. This investment covered everything from product development and infrastructure through to staff training and reviews of our various legal documents.

2018 was also the start of a period of change. In February of 2019, we announced the closure of our London office as part of a broader restructuring. However, some of the groundwork for this project was undertaken in 2018, with the implementation of various company wide systems and procedures. The restructuring programme is expected to return the Group to a healthy level of operating profit on a sustainable basis.

While much work was undertaken behind the scenes in 2018, we also continued to develop our products. Enhancements and new functionality were delivered for each of our leading products, while the year also saw the first revenue materialise for our GatedTalent platform.

GatedTalent experienced various highs and lows during the year. In the early stages of the year, we significantly surpassed our initial expectations for recruiter take up but were disappointed by the number of executive registrations. In the second half of the year, we saw registrations begin to accelerate, and in Q4 we launched "Member Services" which is a new premium B2C revenue stream. We are pleased to report that this has proven successful and, less than 6 months since launch, we now realise more recurring revenue every month from Member Services than we do from any single executive search firm contract.

Overall, Group revenue fell 11% to £8.692m, of which recurring revenue fell 10% to £7.154m – a significant part of this loss was the previously referenced client departure. IFRS 15 Revenue from contracts with customers was introduced with effect from 1 January 2018 and has resulted in the restatement of the 2017 numbers.

Adjusted operating profit dropped significantly to £0.055m (2017: £0.459m), in part due to the continued investment in GatedTalent and in part due to the loss of the major client. The operating loss generated by GatedTalent was £0.612m.

The Board remains committed to investing in and supporting the Group's core products and remains excited by the potential of GatedTalent.

Dividends

The Group is not recommending a final dividend in respect of the year to 31 December 2018 (2017: 0.5p per share).

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 2018 and the support we have seen for the changes we are making to the Group.

Outlook

The current year has begun well in each of the three divisions. However, the Board is cognisant of the economic challenges that the year may bring.

As announced in February 2019, the Directors are taking the opportunity to reduce the number of UK offices from three to two by exercising an option to break the lease of the London office later in the year and to increase the size of our Basingstoke and Eastleigh offices.

The majority of our London based staff have been given the opportunity to relocate to Basingstoke, Eastleigh or to work from home and we are pleased to report that the vast majority of our client facing staff are likely to accept this offer. The Board anticipates that the efficiencies gained from merging the various teams across the Group into fewer locations will allow the Group to maintain current levels of client service and product development investment while delivering a significant reduction in costs from 2020 onwards. This exercise will inevitably lead to the Group incurring restructuring costs this year, which are currently estimated to be in the region of £500,000 to £900,000 and which are expected to be met without recourse to shareholders. An update on the cost of the restructuring and the anticipated savings will be provided later in the year.

The Board currently expects that the Group will deliver a profit before tax in 2019 which will be comparable with 2018 (£0.018m) before restructuring and acquisition related costs. Profit is expected to grow strongly in future years as the benefits of the restructuring and the investment in GatedTalent start to materialise.

Dr Mike Love
Non-Executive Chairman
29 April 2019

CEO'S REVIEW

For the year ended 31 December 2018

Dillistone Group Plc supplies products and services to facilitate recruitment. We do this through three divisions which, between them, cover everything from retained executive search technology through to tools to facilitate the hiring of temporary staff, from pre-employment skills testing through to a B2C platform that allows executives to share information with executive search firms.

Strategy and objectives

In our time as a public company, we have made three acquisitions and each of them has made a contribution to the business. However, as our markets have become increasingly competitive, it has become apparent that it is necessary to streamline our operating structure and this is a major focus for us in 2019.

In the longer term, our strategy remains to grow the business both organically and through acquisition.

This requires ongoing investment in product development which ensures that the business continues to command a leading role in 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; and
- 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 financial KPIs set out below. As discussed above the Board is undertaking a major restructuring exercise to address the longer term performance of the business:

	FY 2017 £000	FY 2018 £000	Measure used by management	Met /Not met
Total revenues	9,732	8,692	year on year growth	not met
Recurring revenues	7,942	7,154	year on year growth	not met
Non recurring revenues	1,326	1,169	year on year growth	not met
Adjusted profit before tax	453	18	year on year growth	not met
Cash	1,390	725	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.

CEO'S REVIEW
Continued

Restructuring Plan

Results in 2018 have clearly been disappointing and the Board has embarked on a plan which, it believes, will deliver significantly improved performance from 2020 onwards. We are now well progressed on our plan to streamline our operating procedures while maintaining our excellent reputation for client service. As stated previously we expect the costs of the restructuring to be in the region of £500,000 to £900,000. These costs are expected to be met without recourse to shareholders.

We have:

- Completed the implementation of a Group wide CRM system, allowing team members to operate more easily on Group wide projects
- Begun the process of implementing a Group wide financial system and expect this to be complete prior to the year end.
- Merged certain back office teams and are in the process of merging the product development and other teams.
- Terminated the lease of our London office while expanding our Basingstoke office. We expect to vacate London before the end of the year.
- While conversations with staff are ongoing, we are pleased that the vast majority of our client facing staff have agreed to remain with the Group, ensuring that client service is not negatively impacted by these changes.
- Informed clients that certain products are being withdrawn from the market, while maintaining overall product development expenditure. We will continue to invest in product development for each of our flagship products and believe that our new development structure will lead to more efficient development going forward.

Our business model

The business is currently split into three Divisions. Dillistone Systems and Voyager Software are our established businesses, with GatedTalent launched in the second half of 2017 with first revenue seen in 2018. The statutory and operational structure of the Group is being reviewed as part of the restructuring exercise with an aim to simplify this and reduce the costs of reporting.

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. 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 licence model towards our cloud delivery (SaaS) services.

The GatedTalent Division generates revenue from a combination of recruiter subscription fees and premium fees direct from executives. 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.

Group review of the business

2018 saw recurring revenues fall 10% to £7.154m (restated 2017: £7.942m) reflecting principally the loss of the major client in 2018. Non-recurring revenues decreased to £1.169m (restated 2017: £1.326m). As a result, overall revenues decreased by 11% to £8.692m (restated 2017: £9.732m) with recurring revenues representing 82% of Group revenues (restated 2017: 82%). Costs have reduced despite continuing investment in GatedTalent which made, as expected, an operating loss of £0.612m (2017: loss £0.439m).

Adjusted EBITDA[1] fell to £1.301m (restated 2017: £1.559m). Adjusted operating profit fell to £0.055m (restated 2017: £0.459m) and pre-tax profits before acquisition related items and one-off adjustments reduced to £0.018m (restated 2017: £0.453m). There was an operating loss for the year of £0.414m (restated 2017: loss £0.364m) and loss for the year of £0.260m (restated 2017: profit £0.057m). Cash at the year end was £0.725m (2017: £1.390m).

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 currently in London and it has offices in the US, Germany and Australia. The Division accounts for 48% (restated 2017: 47%) of the Group's revenue and it saw revenue fall 7% to £4.195m (restated 2017: £4.531m).

Product development focus in 2018 included GDPR and integration with GatedTalent, along with a significant number of user experience improvements. As part of our restructuring, we have

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

brought development resources from other parts of the Group in to support FileFinder product development, and are already seeing the benefits of this. We continue to invest in FileFinder and expect new releases later in the year.

Earnings before interest, tax, depreciation and amortisation ('EBITDA') fell to £0.723m (restated 2017: £0.761m) as sales fell and costs improved. The total amortisation and depreciation charge was £0.644m (2017: £0.589m). Operating profit for 2018 was £0.079m (restated 2017: £0.172m).

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 2018, the Voyager Software division accounted for 51% (2017: 53%) of Group revenues. The Division's revenues decreased by 15% to £4.429m (restated 2017: £5.201m) mainly due to the loss of a major client in 2018. EBITDA decreased to £1.003m (restated 2017: £1.367m). Amortisation and depreciation decreased to £0.475m (2017: £0.511m). Divisional operating profit decreased to £0.528m (restated 2017: £0.856m).

2018 saw some major developments in the Division including:

- The addition of global addressing and location searching in Infinity
- A new fast-paced temporary recruitment Planner system in Infinity
- The extension of ISV.online to include psychometric as well as skills testing
- Market leading support for enabling clients to work under the GDPR

We are in the process of removing certain legacy Voyager products from the market. However we continue to invest in the core products of the Division.

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 launched in late 2017 with first revenues occurring in 2018 of £0.068m.

The basic platform has over 50,000 profiles and is free to executives. New profiles are being added at around 1,000 per week. Revenue is being generated from executive recruiters through subscriptions to the platform. In Q4 2018, we launched "Member Services" generating a new premium B2C revenue stream for the Division. This has been successful and has accelerated rapidly. We would anticipate that member revenues will be larger than recruiter revenues in 2019. After less than six months, we realise more recurring revenue every month from Member Services than we do from any single executive search contract.

The Division is effectively a start-up business within the Group and made an operating loss of £0.612m (2017 loss: £0.439m) after depreciation and amortisation charges of £0.127m (2017: £nil). The business is expected to remain loss making in 2019. The total investment in GatedTalent (including capitalised development) to 31 December 2018 was over £1.700m.

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.

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.

CEO'S REVIEW
Continued

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. We strengthened the Product team in 2018 and expect to add further resource in 2019.
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 2018 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.

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 fund the restructure	The restructuring potentially requires access to short term funding either via borrowing or through the availability of its own cash resources.	Ongoing discussions with investors and potential investors to build a following in Dillistone. Strong relationship with bank.
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.	A major restructuring is planned for 2019 to add efficiencies to the Group and help ensure it has the right resources.
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 continues to be 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. Data Protection Officer ('DPO') appointed.
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.
Reorganisation risk	The Group is planning a major restructuring exercise which could result in losing people that are key to the business or loss of focus on delivery of the business plan.	Detailed project plan in place and key people appointed to roles. Frequent discussions with staff and flexibility on working arrangement being adopted.

FINANCIAL REVIEW

For the year ended 31 December 2018

Total revenues decreased by 11% to £8.692m (restated 2017: £9.732m) with recurring revenues decreasing by 10% to £7.154m (restated 2017: £7.942m) while non-recurring revenues decreased to £1.169m (restated 2017: £1.326m). Third party resell revenue amounted to £0.369m in the period (2017: £0.464m).

Contractor and internal development costs were reclassified as administrative expenses from costs of sales and the 2017 comparatives have also been restated on this basis (see note 27). Cost of sales decreased to £1.054m (2017: £1.247m).

Administrative costs, excluding acquisition related items, depreciation and amortisation, fell 8% to £6.337m (2017: £6.926m) as measures were taken to reduce costs following the loss of the major contract in 2018. Depreciation and amortisation (excluding acquisition related amortisation) increased to £1.246m (2017: £1.100m).

Acquisition related administrative costs totalled £0.469m (2017: £0.823m) and were in respect of the amortisation of intangibles arising on the Voyager, FCP and ISV acquisitions. The prior year figure included an acceleration of the acquisition intangibles amortisation as a result of the loss of the major contract in that business.

Recurring revenues covered 94% of administrative expenses before acquisition related and one-off costs (restated 2017: 99%). Excluding depreciation and amortisation of our own internal development, the administrative costs are covered 112% (restated 2017: 115%) by recurring revenues.

The Group benefitted from a tax credit in 2018 of £0.191m (restated 2017: credit £0.432m). The 2018 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 also benefits from a deduction for the IFRS 15 adjustment put through the accounts although this is largely offset by the release of the deferred tax asset created in the opening balance position at 1 January 2017. 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 £0.120m (restated 2017: £0.734m). The 2018 adjusted profits benefitted from a tax credit of £0.102m (restated 2017: tax credit of £0.281m). The loss for the year after acquisition related items and other one-off items was £0.260m (2017: profit £0.057m). Basic loss per share (EPS) fell to (1.32)p (restated 2017: EPS of 0.29p). Fully diluted EPS fell to (1.32)p (restated 2017: EPS of 0.29p). Adjusted basic EPS fell to 0.61p (restated 2017: EPS of 3.73p).

Dillistone Group Plc company results show a profit of £1.338m (2017: £1.311m) after an impairment of £0.451m (2017: £nil) to its investment in Voyager/FCP due to the loss of a major contract.

Capital expenditure

The Group invested £1.536m in property, plant and equipment and product development during the year (2017: £1.506m). This expenditure included £1.446m (2017: £1.358m) spent on capitalised development related costs.

Trade and other payables

As with previous years, the trade and other payables includes deferred income of £3.575m (2017 restated: £3.811m), i.e. 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 2018 but are in respect of services to be delivered in 2019. It also includes licence revenue for which a support contract is required, and which is spread over 5 years under IFRS15. Contractual income is recognised monthly over the period to which it relates. It also includes deposits taken for work which has not yet been completed; as such income is only recognised when the work is substantially complete, or the client software goes “live”. At the end of 2018, there was no contingent consideration payable (2017: £0.146m).

Cash

The Group finished the year with cash funds of £0.725m (2017: £1.390m); and a convertible loan of £0.404m (2017: £0.391m after taking into account the equity adjustment). This is after capital expenditure of £1.536m, the final payment to the vendors of ISV of £0.146m and dividend payments of £0.098m.

On behalf of the Board

Julie Pomeroy
Finance Director
29 April 2019

The Strategic Report is signed on behalf of the Board by

Jason Starr
Chief Executive
29 April 2019

CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2018

The Board is collectively responsible for setting the tone and culture of the Group and promoting good corporate governance. Dillistone has adopted the Quoted Companies Alliance Corporate Governance Code (the "Code"). At Dillistone we believe in good corporate governance and accountability and we make robust corporate governance part of our culture and business values. Details of the Code and how Dillistone complies with it is detailed below:

1. Establish a strategy and business model which promote long-term value for shareholders

Compliance

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. Details of the Group's strategy, objectives and business model are set out on pages 5 and 6 of this report. The key challenges and risks faced by the business are included on pages 8 and 9.

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

There is a 3-year rolling process of business planning throughout the Group, within a framework and structure set by the Board. For new projects or products, a 5-year horizon may be used. The Group seeks to deliver long term growth and value to shareholders and other stakeholders and its strategy evolves over time as the Group grows. The Executive Directors through the Chief Executive Officer are responsible for executing the strategy once agreed by the Board. The Chief Executive Officer is also responsible for reporting on business strategy, operational performance, risks and other significant developments at Board meetings.

2. Seek to understand and meet shareholder needs and expectations

Compliance

The Board recognises its primary role of representing and promoting the interests of the Group's shareholders. The Board is accountable to shareholders for the long-term performance and success of the Company. The Chief Executive Officer and Finance Director hold regular meetings with institutional shareholders and private client brokers to discuss and review the Group's activities, strategies and performance. Investor feedback from these meetings is provided by the Group's NOMAD. The Chief Executive Officer and Finance Director also present interim and annual results through webinars open to all shareholders and members of the public, which has been well received. Questions are also encouraged at these sessions. For the majority of RNS announcements the Chief Executive also records an appropriate update to explain the announcement and again this is available to shareholders. The Chief Executive Officer and Finance Director also make themselves available to speak to potential institutional shareholders. These meetings and discussions give the Board an opportunity to gauge shareholder feedback and expectations, much of which has been around GatedTalent in 2018.

A RNS is published after the AGM to announce the resolutions passed at the AGM. To date all AGM resolutions proposed have been passed; the Group has not experienced significant dissenting shareholder votes for resolutions proposed at the AGM (over 20%), including proxy votes.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

Compliance

The Board recognises its prime responsibility under UK corporate law is to promote the success of the Group for the benefit of its members as a whole.

Our customers are essential to our business and we maintain long-term relationships with our customers. Dillistone operates a system of key account managers whose role is to communicate with them and ensure close liaison, in addition to the day-to-day communication that occurs with every customer contract. Customer feedback is considered at Divisional board meetings, and our services evolves accordingly. Senior executives have frequent discussions with key customers and regular newsletters and other mailings are used to inform customers and potential customers.

Our staff are key to the business and the Directors recognise the need for engagement with employees. Each main division hold monthly staff meetings to update staff on current matters both in the division and in the wider group. With less than 150 people, it means that Directors and management staff are relatively accessible to all employees. We also encourage engagement of staff in the business through share schemes and the Group runs a Sharesave scheme for all UK employees.

We develop long standing relationships with our bankers and keep them regularly updated as to how the business is performing. We also seek to maintain long term relationships with key suppliers.

The Board also understands that it has a responsibility to consider, where practicable, the social, environmental and economic impact of its approach.

CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2018
Continued

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

Compliance

The Board undertakes a regular and robust assessment of the effectiveness of the Group's risk management framework at least annually. Each Board meeting includes an agenda item on risk and consideration is also given to whether any new risks have been identified. The latest annual summary of the significant risks and uncertainties, is contained in pages 8 and 9. We do not have a formal risk committee.

Our internal governance and reporting structure, for example through monthly Divisional board meetings and financial reporting, provides a key and effective risk management tool. Divergences from expected financial and project performances are discussed in detail and remedial action taken where possible. All divisional Board meetings are attended by the Chief Executive and Finance Director.

The Group takes external advice from its advisors on significant matters, and also tries to ensure that it has qualified staff who understand key risk issues. For example, GDPR had a significant impact within the recruitment and software industry. A senior member of executive team qualified for a GDPR practitioner certificate and also an internal committee was established to help manage risk and compliance. Legal advice was also sought.

5. Maintain the board as a well-functioning, balanced team led by the chair

Compliance

The Board exercises full and effective control over Dillistone Group. There is a formal schedule of matters reserved specifically for its decisions, relating to strategy, finance, risk, operations and governance.

The Board delegates certain functions to its three principal committees, the Audit Committee, the Remuneration Committee and the Nomination Committee, as set out below.

Details of the members of the Board are set out below and further biographical details are on pages 20 and 21 or on our website.

Non-Executive Directors		
M D Love	Non-executive Chairman	Independent – although Dr Love has served on the Board for over 9 years and holds 5% of the share capital he is free from any business or other relationship which could materially interfere with the exercise of his independent judgement. Time commitment to the business is appropriately 1 day per month.
G R Fearnley	Non-executive Director	Senior independent director. Mr Fearnley holds 2.3% of the share capital and this level of holding is not considered by the Board to change his independence. Commitment to the business is approximately ½ day per month.
Executive Directors		
J S Starr	Chief Executive	Full time
R Howard	Operations Director	Part time – 3 days per week
A D James	Director	Full time
J P Pomeroy	Finance Director	Part time – 4 days per week
A Milne	Managing Director – Dillistone Systems Division	Full time

The Chairman leads the Board, while the Chief Executive Officer is charged with managing the Group's business. The roles of the Chairman and Chief Executive Officer are distinct. The Code expects an appropriate combination of executive and non-executive directors. Our split is between five Executive and two Non-Executive Directors (including the Non-Executive Chairman).

The Chairman and the Board collectively believes this split between its Executive and Non-Executive Directors is appropriate. This composition continues to provide the expertise, breadth of experience and independence of thought needed, while maintaining efficient Board meetings.

The Group considers that both of its Non-executive directors are independent as discussed above. The Board considers its composition appropriate for an AIM-quoted Group of its size, market cap, and individual circumstances.

The Board meets at least five times each year and has adopted a formal schedule of matters specifically reserved for decision by it, thus ensuring that it exercises control over appropriate strategic, financial, operational and compliance issues. At these meetings the Board reviews trading performance, ensures adequate financing, sets and monitors strategy, examines investment and acquisition opportunities and discusses reports to Shareholders.

The Board meeting attendance record is set out below:

Name	Number of meetings held	Number of meetings attended
M D Love	7	6
G R Fearnley	7	5
J S Starr	7	7
R Howard	7	7
A D James	7	7
J P Pomeroy	7	7
A Milne	7	7

Currently one third of the Board submits itself for re-election at each AGM as part of the Group's formal retirement by rotation policy. Under the current Articles every Director must offer himself for re-election every three years. We consider a re-election every three years appropriate for all Directors, which is not in line with the Code's suggestion of annual re-elections. Mike Love, Jason Starr, Alex James and Rory Howard have served on the Board for more than 9 years; despite serving the Board on a long term basis, the Directors individually believe that they act objectively in their respective roles and can act with sufficient independence.

All Directors are given full and timely access to all relevant management and accounting information. All Directors are able to seek independent professional advice in the course of their duties, at the Group's expense. If any Director has concerns regarding unresolved business issues, they are entitled to require the Company Secretary to minute their concerns. Formal terms of reference have been agreed for all Board Committees.

The Board has three principle committees. The audit committee which is made up of the two non executive directors, meets twice yearly and is chaired by Giles Fearnley. The remuneration committee again is made up of the two independent directors and meets on an adhoc basis and is chaired by Mike Love. The nomination committee meets as and when required and there were no such meetings in 2018.

The Board reviews trading and operational performance regularly. Divergences from expected performance are followed up promptly and rigorously. Monthly management accounts are prepared and distributed members of the Board. Divisional management accounts are also produced and circulated to divisional directors.

6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

Compliance

Directors who have been appointed to the Company have been chosen because of the skills and experience they offer. Full biographical details of the Directors are included under the Management section on the website and on pages 20 and 21 of this report.

The Board considers itself sufficiently diverse when considering the background, knowledge and experience that each individual member brings to the Board. Where Board appointments are made the whole Board is involved. One member of the Board is female. Board appointments are made solely on merit. Other senior management appointments, i.e. divisional and subsidiary directors, are considered by the remuneration committee and the Board.

Directors are encouraged to keep their skills up to date by attending appropriate courses or by being members of other boards where new skills and ideas can be learned. The Board keeps under review the strength and depth of its senior management and encourages the divisional teams to ensure they have the skills required. Succession planning is currently not formally discussed but will be considered going forward as part of the Board appraisal process.

CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2018
Continued

Board member	Role	Experience
Mike Love	Chairman	Mike brings a wealth of experience to the Dillistone Board. 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 an experienced chairman through his current role at SciSys and also as chairman of a private company Redcliffe Precision Ltd. He has a good understanding of software development projects and he brings strong independent judgement to Dillistone.
Giles Fearnley	Senior Independent Director	Giles has a significant experience leading large business in the passenger transport sector. He brings real commercial judgement to Dillistone through his knowledge of working in challenging sectors.
Jason Starr	CEO	Jason has worked for the majority of his career at Dillistone and so knows the sector extremely well. He also brings further AIM experience through his role as a non-executive director of AIM listed PCIPAL PLC where he chairs the remuneration committee.
Rory Howard	Operations Director	Rory has a background as a technical and database analyst as well as being an experienced project manager and a PRINCE2 practitioner.
Alex James	Director	Alex brought his experience of quality control and account manager as well as his background in recruitment to Dillistone when he joined in 1999. He has since worked in training and consultancy and in projects management. He is now responsible for the implementation of products and services GatedTalent and also projects director for Voyager Division.
Julie Pomeroy	Finance Director and Company Secretary	Julie is a chartered accountant (ACA) with additional qualifications in both tax and treasury. She is also a Chartered Director. She is an experienced finance director of quoted and private companies. Julie is also a non-executive director of Nottingham University Hospitals NHS Trust.
Alistair Milne	Managing Director – Dillistone Systems Division	Alistair brought with him a background in marketing and management when he joined Dillistone in 2003. He has worked principally in support and technical services within the business.

7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

Compliance

The Group undertakes regular monitoring of personal and corporate performance using agreed Key Performance Indicators and detailed financial reports.

The Board does not expect to undertake an annual independent evaluation as recommended by the Code. A two-yearly internal evaluation is considered appropriate given the smaller size of the Board and regular day-to-day contact between Board members. The Board's first evaluation took place in March 2019 with the results reported to the Board in April 2019. The Chairman and Independent Non-Executive Director prepared the board evaluation questionnaire and assessment criteria drawing on their experience of running evaluation programmes at other quoted companies.

The key areas addressed by the questionnaire were as follows:

- Board Role and Agenda Setting (Monitoring Performance and Strategic Planning)
- Size, Composition and Independence of Board
- Director Orientation and Development
- Board Leadership, Teamwork and Management Relations
- Board (and Committee) Meetings
- Director and Board Evaluation, Compensation and Ownership
- Management Evaluation, Compensation and Ownership
- Succession Planning
- Ethics

The Chairman aggregated the scores and the results were discussed. For the low scoring questions plans are being drawn for the following areas:

1. Board training
2. Board performance benchmarks
3. Board evaluation
4. Succession planning

Directors' performance has been informally reviewed by the chairman annually.
A formal annual review is currently being put in place.

The Board keeps under review the strength and depth of its senior management and encourages the divisional teams to ensure they have the skills required. Succession planning is currently not formally discussed but will be considered going forward as part of the Board appraisal process.

8. Promote a corporate culture that is based on ethical values and behaviours

Compliance

Our corporate values of openness and respect, set by the Board, seek to promote good corporate behaviours. The Group operates in international markets and is mindful that respect of individual cultures is critical to corporate success.

The Group has an anti-bribery policy and has implemented adequate procedures described by the Bribery Act 2010.

The Group has undertaken a review of its requirements under the General Data Protection Regulation, implementing appropriate policies, procedures and training to ensure it is compliant. A senior member of executive team has a GDPR practitioner certificate and also an internal committee has been established to help manage risk and compliance. Legal advice was also sought.

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

Compliance

The Board sets the Group's strategic aims and ensures that necessary resources are in place in order for the Group to meet its objectives. All members of the Board take collective responsibility for the performance of the Group and all decisions are taken in the interests of the Group.

The Chairman leads the Board, while the Chief Executive Officer is charged with managing the Group's business. The roles of the Chairman and Chief Executive Officer are distinct.

Board member	Role	Responsibilities
Mike Love	Chairman	Leads the Board
Giles Fearnley	Senior Independent Director	NED
Jason Starr	CEO	Managing the Group's businesses
Rory Howard	Operations Director	Responsible for operations at Dillistone Division including commercial contracts and insurance. He is also Group DPO
Alex James	Director	Responsible for the implementation of products and services for GatedTalent and also projects director for Voyager Division
Julie Pomeroy	Finance Director	Group Finance Director and Company Secretary
Alistair Milne	Managing Director – Dillistone Systems Division	Responsible for the performance of Dillistone Division

CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2018
Continued

We have two main Board committees; an Audit Committee and a Remuneration Committee. The Board as a whole makes up the Nomination committee. Their responsibilities are summarised below:

Audit Committee

- The Committee is made up of the 2 non executive directors and meets twice a year to consider the scope of the annual audit and the interim financial statements and to assess the effectiveness of the Group's system of internal controls.
- It reviews the results of the external audit, its cost effectiveness and the objectives of the auditor.
- Given the size of the Group, the Audit Committee considers an internal audit function is not currently justified.
- The audit committee meets at least annually with the auditors without executive management.
- The audit committee reports its discussions to the next Board Meeting.

Remuneration Committee

- It meets at least once a year to determine Group policy on senior Executive remuneration, to make detailed recommendations to the Board regarding the remuneration packages of the Executive Directors and to consider awards under the Group's option schemes.
- The Chief Executive Officer is consulted on remuneration packages and policy but does not attend discussions regarding his own package.
- The remuneration and terms and conditions of the appointment of Non-executive Directors are determined by the Board.

While our divisions operate as separate units with areas of autonomy set by the Board, they are supervised by the Board through structured Divisional board meetings and reporting, which is fed into the Chief Executive Officer, and reported back into the Board meetings. Divisional boards normally meet monthly.

In 2017, a separate GDPR committee was formed and meets monthly. A Data Protection Officer has been appointed.

Further details of the Group's corporate governance arrangements are provided within this Corporate Governance section of the website. The appropriateness of the Company's governance structures will be reviewed as the Company evolves.

10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

Compliance

The Board recognises its primary role of representing and promoting the interests of the Group's shareholders. The Board is accountable to shareholders for the long-term performance and success of the Group. The Chief Executive and Finance Director hold regular meetings with institutional shareholders and private client brokers to discuss and review the Group's activities, strategies and performance. Investor feedback from these meetings is provided by WH Ireland. The Chief Executive Officer and Finance Director also present interim and annual results through webinars open to all shareholders and members of the public, which has been well received. Questions are also encouraged at these sessions. For the majority of RNS announcements the Chief Executive also records an appropriate update to explain the announcement and again this is available to shareholders.

The Chief Executive Officer and Finance Director also make themselves available to speak to potential institutional shareholders. These meetings and discussions give the Board an opportunity to gauge shareholder feedback and expectations.

A RNS is published after the AGM to announce the resolutions passed at the AGM. To date all AGM resolutions proposed have been passed; the Group has not experienced significant dissenting shareholder votes for resolutions proposed at the AGM (over 20%), including proxy votes.

In conjunction with the Group's Nomad and other financial advisers we distribute news in a timely fashion through appropriate channels, to ensure that shareholders are able to access material information about the Group's progress.

Details of the work of the audit and remuneration committee are dealt with above. The remuneration report is contained on pages 17 to 19. In view of the size of the organisation no formal audit committee report is produced.

Regular newsletters are sent to customers and potential customers to keep them updated. Also LinkedIn groups have been formed which enable interested parties to have appropriate dialogues with the various businesses.

Monthly staff meetings are held in the divisions to keep them informed about developments in the business and for issues to be raised.

Details of RNS announcements and copies of annual and interim reports are contained within the accounts and RNS sections of the AIM Rule 26 area of our website.

REPORT TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION

For the year ended 31 December 2018

Remuneration report

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 recognised in the 2018 financial year is £nil (2017: £17,000) 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 or other targets set by the Remuneration Committee. 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 targets. Annual awards are usually 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	2018 £'000	2017 £'000
Executive Directors						
J S Starr	124	-	8	1	133	133
R Howard	46	-	33	1	80	81
A D James	98	-	9	-	107	104
J P Pomeroy	91	-	12	1	104	105
A Milne	98	-	8	-	106	104
Non-Executive Directors						
M D Love	35	-	-	-	35	35
G R Fearnley	13	-	-	-	13	13
	505	**-**	**70**	**3**	**578**	**575**

* Salary is calculated after deducting salary sacrifice payments which totalled £36,000.

† Includes salary sacrifice payments which totalled £36,000.

REPORT TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION

For the year ended 31 December 2018
Continued

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 NI Employer's £'000	Total value of salary based LTIP awards carried at 31 December 2018* £'000	Total value of all salary based LTIP awards carried at 31 December 2017* £'000
J S Starr	-	-	1	8
R Howard	-	-	1	4
	-	-	**2**	**12**

* 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 2018	Total number of options granted under LTIP scheme at 31 December 2017
A D James	-	264,471	330,830
J P Pomeroy	-	264,063	330,134
A Milne	-	264,471	327,659
Total	**-**	**793,005**	**988,623**

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 2018	At 31 December 2017
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:

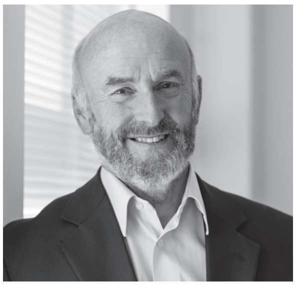
	8.15% convertible loan notes	
	At 31 December 2018	At 31 December 2017
J S Starr	£24,250	£24,250
R Howard	£24,250	£24,250
A D James	£1,000	£1,000
M D Love	£250,000	£250,000
G R Fearnley	£75,000	£75,000
J P Pomeroy	£10,000	£10,000

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 2018	At 31 December 2017
A D James	264,471	330,830
J P Pomeroy	275,586	341,657
A Milne	269,098	332,286
	809,155	**1,004,773**

BOARD OF DIRECTORS
For the year ended 31 December 2018



MIKE LOVE
70
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
47
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 2015.

RORY HOWARD
51
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
46
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
43
MANAGING DIRECTOR – DILLISTONE SYSTEMS DIVISION

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 2018, previously being the Director of Support Services.

JULIE POMEROY
63
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
64
NON-EXECUTIVE DIRECTOR

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

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

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

DIRECTORS' REPORT

For the year ended 31 December 2018

The Directors present their report and financial statements for the year ended 31 December 2018.

Results and dividends

The consolidated statement of comprehensive income for the year is set out on page 30.

No final dividend will be paid (2017: 0.5p)

Directors

The following Directors have held office since 1 January 2018:

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 pages 18 and 19.

Giles Fearnley and Julie Pomeroy are proposed for re-election at the forthcoming AGM. Julie has 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

In February 2019 the Group announced a major restructuring and closing of its London Office.

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 the offices of Voyager Software, **12 Cedarwood, Crockford Lane, Chineham Business Park, Basingstoke, RG24 8WD** on 26 June 2019 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; and
- 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 Group and 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

29 April 2019

INDEPENDENT AUDITOR'S REPORT

to the members of Dillistone Group Plc
For the year ended 31 December 2018

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 2018 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 2018 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

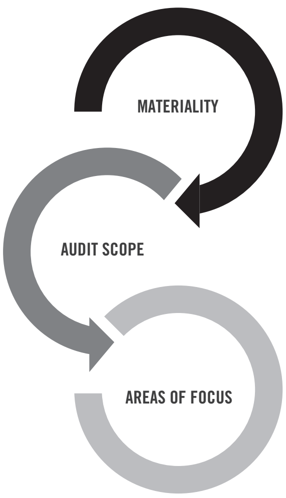
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of 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 £130,000 (2017: £143,000), which represents 1.50% (2017: 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 three key audit matters, Capitalised Development Costs, Impairment of Intangible Assets 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 2 and 3.	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 was 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

to the members of Dillistone Group Plc
For the year ended 31 December 2018
Continued

Key audit matter	Description of key audit matter	Our response
Impairment of Intangible Assets	The group's policy regarding impairment of intangible assets can be found in note 1.10 to the financial statements. In the current year, the group lost a major customer contract, significantly reducing the income generated by the Voyager division. In addition, the group experienced lower sales and profits than forecast across all divisions during 2018. Given the group carries a material balance of intangible assets, we determined that these indicators of impairment presented a significant risk of material misstatement. Therefore, the key audit matter was the valuation of the goodwill and other intangible asset balances held on the statement of financial position at year-end, and specifically, the potential for these to be impaired.	Our audit procedures involved: • We reviewed management's impairment assessments for each CGU, including the discounted cash flow analysis. As part of this, we challenged the key assumptions, including the growth rate and discount rates applied. This included consultation with valuation experts on the appropriate use of these assumptions, where required. • Based on external evidence, we performed sensitivity testing on certain assumptions used in the impairment assessment. • Compared the discounted cash flow analysis to the historical performance and the actual post year-end results of each CGU.

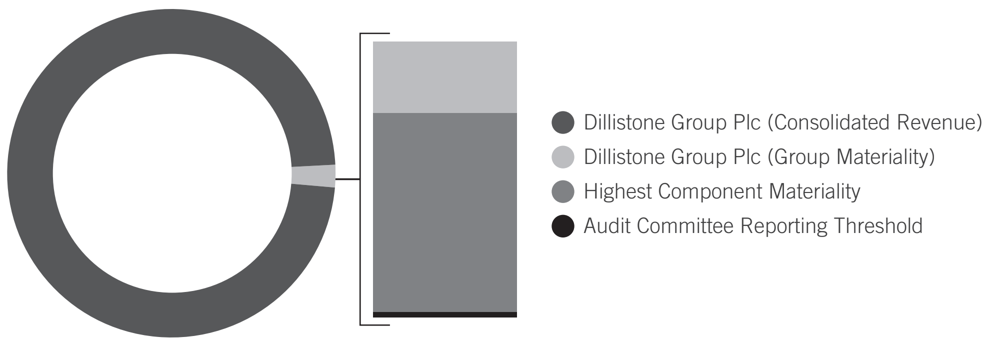
Our application of materiality

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 £6,500 (2017: £7,150). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

Overall group materiality	£130,000 (2017: £143,000)
Basis for determining	1.50% of total group revenue (2017: 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 capitalise 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	£121,000 (2017: £108,000)



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	8% to 92% (2017: 3% to 93%) of group materiality

Performance materiality was set at 75% (2017: 75%) of the above materiality figures.

An overview of the scope of our audit

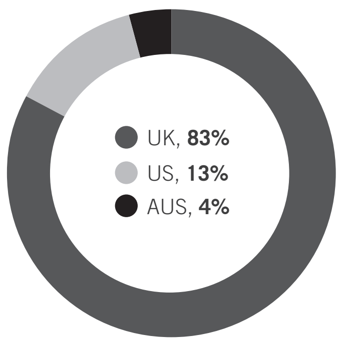
Our group audit was scoped by obtaining an understanding of the group and its environment, including the group's system of internal control, and assessing the risks of material misstatement in the financial statements at the group level.

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.

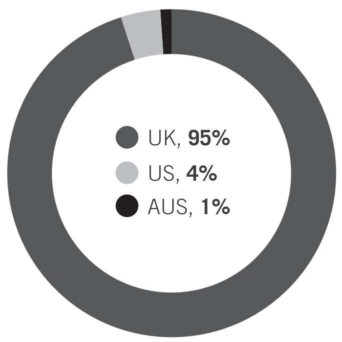
The group audit team centrally performed the audit of 83% (2017: 82%) of group revenue and 95% (2017: 95%) of total assets using the materiality levels set out above.

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.

Total Revenue



Total Assets



INDEPENDENT AUDITOR'S REPORT

to the members of Dillistone Group Plc
For the year ended 31 December 2018
Continued

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.

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 23, 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

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.

Use of our report

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.

Signature

David Butcher (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London

29 April 2019

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 2018

	Note	2018 £'000	2017 restated £'000
Revenue	3	8,692	9,732
Cost of sales		(1,054)	(1,247)
Gross profit		7,638	8,485
Administrative expenses		(8,052)	(8,849)
Operating loss	6	(414)	(364)
Adjusted operating profit before acquisition related and one–off items	2	55	459
Acquisition related and one-off items	5	(469)	(823)
Operating (loss)/profit		(414)	(364)
Financial income	8	1	1
Financial cost	8	(38)	(12)
Loss before tax		(451)	(375)
Tax income	9	191	432
(Loss)/profit for the year		(260)	57
Other comprehensive income/(loss)			
Items that will be reclassified subsequently to profit and loss:			
Currency translation differences		(30)	(24)
Total comprehensive (loss)/income for the year		**(290)**	**33**
Earnings per share			
Basic	10	(1.32)p	0.29p
Diluted	10	(1.32)p	0.29p

See note 26 for details of restatement of 2017 numbers as a result of a change in accounting policy.

Cost of sales have been reduced by £0.289m in 2017 and administrative costs increased by the same amount due to the reclassification of contractors and internal development costs.

The notes on pages 36 to 73 are an integral part of these consolidated and company financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	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 1 January 2017 (as previously stated)	983	1,631	365	3,725		85	117	6,906
Prior year adjustment IFRS 15				(1,190)				(1,190)
Balance at 1 January 2017 (restated)	983	1,631	365	2,535	-	85	117	5,716
Comprehensive income								
Profit for the year (as restated)	-	-	-	57	-	-	-	57
Other comprehensive income								
Exchange differences on translation of overseas operations	-	-	-	-	-	-	(24)	(24)
Total comprehensive income (as restated)	-	-	-	57	-	-	(24)	33
Transactions with owners								
Share option charge	-	-	-	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 (as restated)	983	1,631	365	2,045	14	101	93	5,232
Comprehensive income								
(Loss) for the year ended 31 December 2018	-	-	-	(260)	-	-	-	(260)
Other comprehensive income/(loss)								
Exchange differences on translation of overseas operations	-	-	-	-	-	-	(30)	(30)
Total comprehensive income	-	-	-	(260)	-	-	(30)	(290)
Transactions with owners								
Share option charges	-	-	-	-	-	5	-	5
Dividends paid	-	-	-	(98)	-	-	-	(98)
Total transactions with owners	-	-	-	(98)	-	5	-	(93)
Balance at 31 December 2018	**983**	**1,631**	**365**	**1,687**	**14**	**106**	**63**	**4,849**

The notes on pages 36 to 73 are an integral part of these consolidated and company financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Merger reserve £'000	Convertible loan reserve £'000	Retained earnings £'000	Share option £'000	Total £'000
Balance at 1 January 2017	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
Comprehensive income							
Total comprehensive income for the year ended 31 December 2018	-	-	-	-	1,338	-	1,338
Transactions with owners							
Share option charge	-	-	-	-	-	5	5
Dividends paid	-	-	-	-	(98)	-	(98)
Total transactions with owners	-	-	-	-	(98)	5	(93)
Balance at 31 December 2018	**983**	**1,631**	**365**	**14**	**3,829**	**106**	**6,928**

The notes on pages 36 to 73 are an integral part of these consolidated and company financial statements.

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

As at 31 December 2018

	Note	Group 2018 £'000	Group 2017 restated £'000	Company 2018 £'000	Company 2017 £'000
ASSETS					
Non-current assets					
Goodwill	12	3,415	3,415	-	-
Other intangible assets	13	4,754	4,881	-	-
Property, plant and equipment	14	113	164	-	-
Investments	15	-	-	7,151	7,602
Total non-current assets		8,282	8,460	7,151	7,602
Current assets					
Inventories	16	3	3	-	-
Trade and other receivables	17	1,522	1,677	1,289	934
Cash and cash equivalents	19	725	1,390	-	99
Total current assets		2,250	3,070	1,289	1,033
Total assets		10,532	11,530	8,440	8,635
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	14	14
Retained earnings		1,687	2,045	3,829	2,589
Share option reserve	23	106	101	106	101
Translation reserve		63	93	-	-
Total equity		4,849	5,232	6,928	5,683
Liabilities					
Non-current liabilities					
Trade and other payables	18	690	794	2	12
Borrowings	20	390	386	390	386
Deferred tax liability	9	489	508	-	-
Current liabilities					
Trade and other payables	18	4,370	4,775	1,091	2,549
Borrowings	20	14	5	29	5
Current tax payable		(270)	(170)	-	-
Total liabilities		5,683	6,298	1,512	2,952
Total liabilities and equity		**10,532**	**11,530**	**8,440**	**8,635**

The profit for the financial year for the parent Company was £1,338,000 (2017: £1,311,000).

The notes on pages 36 to 73 are an integral part of these consolidated and company financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 29 April 2019. They were signed on its behalf by
J P Pomeroy – Director
Company Registration No. 4578125

CONSOLIDATED CASH FLOW STATEMENT

As at 31 December 2018

	2018 £'000	2018 £'000	2017 restated £'000	2017 restated £'000
Operating activities				
(Loss) before tax	(451)		(375)	
Adjustment for:				
Financial income	(1)		(1)	
Financial cost	38		12	
Depreciation and amortisation	1,714		1,938	
Share option expense	5		20	
Foreign exchange adjustments arising from operations	70		(12)	
Operating cash flows before movement in working capital:	1,375		1,582	
(Increase) in receivables	171		573	
Decrease in inventories	-		2	
(Decrease) in payables	(471)		(273)	
Taxation refunded/(paid)	65		(12)	
Net cash generated from operating activities		1,140		1,872
Investing activities				
Interest received	1		1	
Purchases of property, plant and equipment	(55)		(55)	
Investment in development costs	(1,481)		(1,439)	
Contingent and deferred consideration paid	(146)		(219)	
Net cash used in investing activities		(1,681)		(1,712)
Financing activities				
Financial cost	(33)		(7)	
Net proceeds from convertible loan note	-		400	
Bank loan repayments made	-		(158)	
Dividends paid	(98)		(551)	
Net cash used in financing activities		(131)		(316)
Net decrease in cash and cash equivalents		(672)		(156)
Cash and cash equivalents at beginning of year		1,390		1,537
Effect of foreign exchange rate changes		7		9
Cash and cash equivalents at end of year		725		1,390

The notes on pages 36 to 73 are an integral part of these consolidated and company financial statements.

COMPANY CASH FLOW STATEMENT

For the year ended 31 December 2018

	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Operating activities				
Profit before tax	1,338		1,311	
Adjustment for:				
Financial cost	37		12	
Impairment	451			
Share option expense	5		20	
Operating cash flows before movements in working capital	1,831		1,343	
Increase in receivables	(355)		(583)	
(Decrease) in payables	(1,313)		(168)	
Net cash generated from operating activities		163		592
Investing activities				
Acquisition of subsidiaries	-		(1)	
Contingent consideration paid	(146)		(219)	
Net cash used in investing activities		(146)		(220)
Financing activities				
Net proceeds from convertible loan note	-		400	
Financial cost	(33)		(7)	
Bank loan repayments made	-		(158)	
Dividends paid	(98)		(551)	
Net cash used in financing activities		(131)		(316)
Net increase/(decrease) in cash and cash equivalents		(114)		56
Cash and cash equivalents at beginning of year		99		43
Cash and cash equivalents at end of year		(15)		99

The notes on pages 36 to 73 are an integral part of these consolidated and company financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 and company 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:

Expected life of support contracts

As detailed in note 1.4, the Group recognises revenue arising on perpetual licences with mandatory support contracts over time. The Group must determine the relevant period to be the life of the support contract, which is unknown at inception. Having reviewed support contract turnover, Management estimates the typical life of relevant contracts to be five years. Changes to this estimate would impact the timing of revenue recognition on such contracts.

Amortisation of internal development expenditure

Amortisation rates are based on estimates of the useful economic lives and residual values of the assets involved. The assessment of these useful economic lives is made by projecting the economic life cycle of the asset which is subject to alteration as a result of product development and innovation. Amortisation rates are changed where economic lives are 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 estimate the amount of Directors' costs that are capitalised given the degree of the Director's involvement in relevant projects.

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 particular, in applying the provision matrix model to trade receivables (see note 1.14) Management has estimated the impact of forward-looking economic data on the future collectability of its trade receivables. In particular, given its geographical areas of operation include the UK and Europe, Management has considered the potential impact of the UK's exit from the European Union. Although it is thought likely to increase default levels, the ongoing uncertainty of the outcome to this process and the uncertainty of its effect on the Group's clients has meant that precision is very difficult to achieve. Thus the Group evaluated a range of outcomes in determining probable future loss rates and chose what it considered to be the most likely scenario. See note 17.

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 and leaver 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:

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.

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.

Customers' practical acceptance of licence software
As detailed in note 1.4, various elements of the Group's revenue recognition policy require determination of point at which control of the good or service being provided passes to the customer.

The Group uses the 'live' date as the basis of determining the timing of customer practical acceptance of the software and the passing of control. In particular for sales of perpetual licences without mandatory support, this constitutes the point in time at which performance obligations relating to the licence are fulfilled and revenue can be recognised. Likewise, for SaaS contracts, this date is the commencement for the period of time over which licence revenue can be recognised. Alternative judgements of when control passes to the customer could impact the timing of 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 5 to 10. 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.

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For the year ended 31 December 2018
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1.3 Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of 31 December 2018. 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. 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

The Group's revenue recognition policy is based on the principle of transfer of promised goods and services ('performance obligations') to the customer. Revenue is recognised on the satisfaction of these contractual performance obligations using a five-step approach, consisting of:

- identification of the contract with the customer;
- identification of all performance obligations in that contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations; and
- recognition of revenue as the performance obligations are fulfilled.

Contracts are broken down into distinct goods and services in order to identify the separate performance obligations within. Goods and services are considered distinct if they are capable of being used independently by the customer, and if they are separately identifiable in the context of the contract.

Depending on the work being performed, customers are typically invoiced work in two stages: a deposit invoice at contract inception before work commences, then a final invoice on completion. For ongoing contracts such as support and SaaS contracts, invoices are issued in advance for the relevant subscription period. All such invoices are typically due for payment within 30 days.

Transaction prices are the amounts of consideration the Group expects to be entitled to in exchange for the transfer of promised goods and services to the customer, exclusive of VAT or any applicable sales taxes. If the timing of payments provides either the Group or customer with a benefit of financing the transfer of goods or services, a significant financing component exists. Although standard payment terms for all customers is 30 days, there is some variability in the timing of payment and delivery (for instance, some customers pay by instalments). However, timing differences between delivery and settlement are one year or less. As such, the Group applies the practical expedient in IFRS 15 not to adjust for significant financing components.

Transaction prices are allocated to contractual performance obligations based on stand-alone selling prices. Where the Group occasionally offers discounts to customers, these are allocated to performance obligations within the contract on the basis of relative stand-alone selling prices.

Revenue is recognised when control of the good or service has been passed to the customer by satisfying the performance obligation, either over time or at a point in time, as follows:

- Over time: this typically occurs when the customer simultaneously receives and consumes the benefits of a service performed by the Group.
- At a point in time: The moment of transfer of control is typically indicated by:
  - o the Group having right to payment;
  - o the customer having legal title to the asset;
  - o the Group transferring physical possession of the asset to the customer, where relevant;
  - o the customer having significant risks and rewards of ownership of the asset; and
  - o the customer having accepted the asset.

The incremental costs incurred in obtaining contracts with customers (e.g. sales commissions) are recognised as an expense as incurred using the practical expedient under IFRS 15 since, if such costs were recorded as an asset, the amortisation period of that asset would be less than one year.

The Group has considered the most significant ways it generates revenue from the goods and services it sells. The following sets out how the general principles above apply to each of these significant areas and how revenue on each is recognised.

Sales of perpetual licences without a mandatory support contract
The Group licences software under licence agreements. The customer typically pays a one-off amount to purchase a licence conferring a perpetual right to use a version of the software. Revenue is recognised at a point in time, when control of the licence passes to the customer through practical acceptance. The Group considers the 'live' date to indicate practical acceptance of the software (refer note 1.1) and thus the date for transfer of control. If payments have been received in advance for licences, where practical acceptance has not yet been reached, these amounts are not recognised as revenue but as deferred income in the statement of financial position.

Sales of perpetual licences with a mandatory support contract
Some of the Group's perpetual licences are sold with mandatory support contracts. In these instances, if the customer decides to cancel their support contract their ability to use the perpetual licence ceases. In these cases, the Group considers the provision of the perpetual licence and the support contract to constitute one performance obligation. As such, the Group recognises the revenue relating to the perpetual licence over time, being the life of the support contract. As this is not known at inception, the group estimates the expected life of support contracts to be five years.

Subscription services, such as support, hosting and SaaS ('Software as a Service')
Each subscription service constitutes a separate contractual arrangement, and separate performance obligation. In each case the customer pays a regular fixed amount for the right to access relevant services, commencing on practical acceptance of the software (as previously defined). As these services are consumed as they are provided revenue is recognised over time, matching the period of the contract. If subscription services are invoiced in advance, these amounts are deferred and recognised as revenue over the relevant period.

Installations
The customer pays a fee for the software to be installed. To the extent to which this work is not complex and could be performed by a third party, revenue is recognised at a point in time, on completion. Complex work constitutes one performance obligation with the software licence, with installation revenue recognised in accordance with how revenue is recognised on the licence.

Training
The customer pays a fee for training. To the extent to which training is not essential for use of the software, revenue is recognised at a point in time, on delivery. Training that is considered essential constitutes one performance obligation with the software licence, and training revenue is recognised in accordance with how revenue is recognised on the licence.

Third party revenues
The Group sells, predominantly as principal, software developed by other organisations together with services that are bought in from third parties. The Group applies the principles of its revenue recognition policy to sales of third-party software in the same way it does sales of its own licenced products. As such, where perpetual licences that are capable of independent use represent one performance obligation, revenue on these is recognised at a point in time on practical acceptance of the software. If use of the software relies on using other services that are consumed over time, revenue from perpetual licence sales are recognised over time in line with recognition of those other services. Services are recognised over time in the period in which they are provided.

Tokens
The Group sells single-use tokens to access certain services within the business. Tokens are normally bought in bundles and can be used once within a certain period of time. Tokens have a fixed expiry period after which the customer has no legally enforceable right to claim on the tokens. The performance obligation conveyed by each token is satisfied when the token is used. As such, revenue is recognised at a point in time, being on use of the token or on expiry of unused 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 share options expected to vest. Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expenses recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

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

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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 or other targets set by the Remuneration Committee. 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 usually based on a percentage of salary with performance conditions related to the growth in earnings per share of the Group or other targets set by the Remuneration Committee. These awards can be exercised between three and ten years after the date of the grant. This element is expensed and recognised in the statement of comprehensive income over the vesting period.

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.

1.9 Adjusted operating profit

Adjusted operating profit excludes acquisition costs and related intangible asset 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. As development expenditure is incurred on multiple projects simultaneously, with roll-outs occurring on a continuous basis, amortisation commences 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.

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.

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

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1.14 Financial assets

The Group classifies its financial assets under the definitions provided in International Financial Reporting Standard 9 (IFRS 9), 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 amortised cost category. These 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 financial assets held at amortised cost arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. As such they comprise trade receivables, intercompany trading balances (in relation to Company accounts), and cash and cash equivalents. Financial assets do not comprise prepayments.

The Group's financial assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue. The exception are trade and receivables balances, which are recorded at their transaction price as they do not contain a significant financing component (see note 1.4). The Group's financial assets are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions for trade receivables, being loss allowances for 'expected credit losses' (ECLs) per IFRS 9, are measured on a lifetime basis using the simplified approach set out in that financial reporting standard. The Group's method in measuring ECLs reflects:

- unbiased and probability-weighted amounts, determined using a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group has applied the practical expedient in IFRS 9 of using a provision matrix to calculate ECLs. This requires the use of historical credit loss experience, as revealed for groupings of similar trade receivable assets, to estimate the relevant ECLs. As such, the Group has employed the following process in calculating ECLs:

- Grouping – trade receivables are grouped based on the similarity of their customer risk profile, being underlying product type and geographical region;
- Default definition – amounts not collected are defined in accordance with the credit risk management of the Group and include qualitative factors, broadly encompassing scenarios where the customer is either unable or unwilling to pay;
- Collection profiles and loss rates – the collection time periods (e.g. within 30 days, 30 – 60 days, etc.) for sales made in the preceding 12-month period are gathered, amounts not collected assessed and loss rates based on ageing inferred;
- Historical periods – historic losses are reviewed over a 3-year time horizon; and
- Forward-looking assessment – the Group considers relevant future economic factors affecting each group of trade receivables, giving an expected probability of default for the portfolio.

The resultant expected loss rates are applied to the ageing profile of grouped trade receivables at the balance sheet date to give the lifetime ECLs for each. This produces the loss allowances to be booked as an impairment adjustment to the carrying value of trade receivables. For further details on the estimates applied in these calculations, see note 1.1.

Trade receivables are reported net of the resultant loss allowances. The loss is recognised within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Impairment provisions for other receivables are recognised based on the general impairment model within IFRS 9.

The Parent Company's receivables due from Group company's are subject to the requirements of IFRS 9, with specific considerations relating to:

- Whether the loans are within the scope of IFRS 9;
- Whether the loans meet the Solely Payments of Principal and Interest test; and
- Whether the loans are in a "hold to collect" business model.

The Parent Company has followed the considerations required under IFRS 9 on the above, and determined the appropriate recognition of the balances receivable from Group companies is at 'amortised cost' following the General ECL model.

This requires the Parent Company to further consider:

- Whether the loans are credit impaired; and
- Whether the loans have suffered a significant increase in credit risk.

The Parent Company has followed the considerations required under IFRS 9 on the above, and noted that neither of the above have occurred during the year ended 31 December 2018, and as such, the appropriate model is the 12-month ECL model. The implications of this have been disclosed in note 17.

1.15 Financial liabilities

The Group classifies its financial liabilities under the definitions provided in IFRS 9. All financial liabilities are recorded initially at fair value plus or minus directly attributable transaction costs. Except where noted, such liabilities are then measured at amortised cost using the effective interest method.

Financial liabilities measured at amortised cost include trade payables, intercompany trading balances (in relation to Company accounts), bank loans and accruals. All financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provision of the instrument.

Unless otherwise indicated, the carrying values of the Group's financial liabilities measured at amortised cost represents a reasonable approximation of their fair values.

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.

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.

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For the year ended 31 December 2018
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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.

1.23 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.

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

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 16	Leases	01-Jan-19

IFRS 16 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 Group expects to apply the modified retrospective approach in adopting IFRS 16. This recognises the right-of-use asset at the date of initial application (1 January 2019). The lease liability is measured based on remaining payments. There is no effect on prior year figures and no need to re-state comparatives.

The Group has undertaken a review of its lease arrangements and concluded that the most significant leases the Group has are its offices. Following the contracted closure of the Group's London offices, it is expected that the impact of this standard for the year ending 31 December 2019 will be reduced. The anticipated estimated changes to the Group's statement of financial position, statement of comprehensive income and key metrics for the year ending 31 December 2019 are set out below.

These calculations assume no changes to the contracted leases anticipated in the reporting period to end 31 December 2019, although it is possible additional leases will be entered into or existing lease contracts amended during the forthcoming period.

Under the existing standard (IAS 17) £130,000 would be expected as an expense in 2019. The adjustment to 'Current liabilities – Trade and other receivables' arises on the reversal of an accrual in respect of rent-free periods and other cash timing differences that would be made under that standard.

Statement of financial position year ending 31 December 2019	£'000
Assets	
Non-current assets – right-of-use asset	583
Increase to Total assets	583
Equity attributable to owners of the parent	
Retained earnings	(14)
(Decrease) to Total Equity	(14)
Liabilities	
Current liabilities – lease liability	16
Current liabilities – Trade and other receivables	(92)
Non-current liabilities – lease liability	673
	597
Increase to Total liabilities and equity	583

Statement of comprehensive income 2019	£'000
Administrative Expenses	(40)
Financial Cost	54
Decrease to profit before tax	14

	£'000
Increase to depreciation in the year	90
Increase in EBITDA in the year	130

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
Continued

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

	Note	Adjusted operating profits 2018 £'000	Acquisition related and one-off items 2018* £'000	2018 £'000	Adjusted operating profits restated 2017 £'000	Acquisition related items 2017* £'000	2017 restated £'000
Revenue		8,692	-	8,692	9,732	–	9,732
Cost of sales		(1,054)	-	(1,054)	(1,247)	–	(1,247)
Gross profit		7,638	-	7,638	8,485	–	8,485
Administrative expenses		(7,583)	(469)	(8,052)	(8,026)	(823)	(8,849)
Operating profit/(loss)		55	(469)	(414)	459	(823)	(364)
Financial income		1	-	1	1	-	1
Financial cost		(38)	-	(38)	(7)	(5)	(12)
Profit/(loss) before tax		18	(469)	(451)	453	(828)	(375)
Tax income		102	89	191	281	151	432
Profit/(loss) for the year		120	(380)	(260)	734	(677)	57
Other comprehensive loss net of tax:							
Currency translation differences		(30)	-	(30)	(24)	-	(24)
Total comprehensive income/(loss) for the year net of tax		90	(380)	(290)	710	(677)	33
Earnings per share							
Basic	10	0.61p		(1.32)p	3.73p		0.29p
Diluted	10	0.61p		(1.32)p	3.73p		0.29p

* See 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 2018

	Dillistone £'000	Voyager £'000	GatedTalent £'000	Central £'000	Total £'000
Segment revenue	4,195	4,429	68	–	8,692
Segment EBITDA	723	1,003	(485)	60	1,301
Depreciation and amortisation expense	(644)	(475)	(127)	-	(1,246)
Segment result	79	528	(612)	60	55
Acquisition related amortisation	-	-	–	(469)	(469)
Operating profit/(loss)	79	528	(612)	(409)	(414)
Financial income	-	1	-	-	1
Loan interest	-	-	-	(38)	(38)
Loss before tax					(451)
Income tax income					**191**
Loss for the year					**(260)**
Additions of non-current assets	**567**	**536**	**434**	**-**	**1,537**

Divisional segments

For the year ended 31 December 2017

	Dillistone £'000	Voyager £'000	GatedTalent £'000	Central £'000	Total £'000
Segment revenue	4,531	5,201	–	–	9,732
Segment EBITDA	761	1,367	(439)	(130)	1,559
Depreciation and amortisation expense	(589)	(511)	–	-	(1,100)
Segment result	172	856	(439)	(130)	459
Acquisition related amortisation	-	-	-	(838)	(838)
Acquisition related income	-	-	-	15	15
Operating profit/(loss)	172	856	(439)	(953)	(364)
Financial income	1	-	-	-	1
Loan interest	-	-	-	(7)	(7)
Acquisition related interest expenses	-	-	-	(5)	(5)
Loss before tax					(375)
Income tax income					**432**
Profit for the year					**57**
Additions of non-current assets	608	502	396	-	**1,506**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
Continued

Products and services

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

Revenue

	2018 £'000	2017 restated £'000
Recurring income	7,154	7,942
Non-recurring income	1,169	1,326
Third party revenues	369	464
	8,692	**9,732**

See note 1.4 on the revenue recognition policy under IFRS 15 and the distinction on timing of revenue recognition. In the analysis above 'Recurring income' represents all income recognised over time, whereas 'Non-recurring income' and 'Third party revenues' represent all income recognised at a point in time.

Recurring income includes all support services, SaaS and hosting income and revenue on perpetual licenses with mandatory support contracts deferred under IFRS 15. Non-recurring income includes sales of new licenses which do not require a support contract, and income derived from installing 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 in 2018 or 2017.

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

	2018 £'000	2017 restated £'000
UK	6,188	6,920
Europe	1,007	1,041
US	1,118	1,359
Australia	379	412
	8,692	**9,732**

Non-current assets by geographical location

	2018 £'000	2017 restated £'000
UK	8,274	8,453
US	4	5
Australia	4	2
	8,282	**8,460**

5. Acquisition related and other one-off items

	2018 £'000	2017 £'000
Included within administrative expenses:		
Estimated change in fair value of contingent consideration (note 24)	-	(15)
Amortisation of acquisition intangibles	469	379
Acceleration of amortisation of acquisition intangibles	-	459
	469	823
Included within financial cost:		
Unwinding of discount on contingent consideration (note 8)	-	5
	469	**828**

6. Operating loss

	2018 £'000	2017 £'000
Operating loss is stated after charging:		
Depreciation	106	105
Amortisation	1,608	1,833
Realised net loss on foreign exchange transactions	4	7
Research costs expensed	-	13
Operating lease rentals – land and buildings	229	234
Money purchase pension contributions	359	319
Fees receivable by the Group auditors:		
Audit of financial statements	30	22
Other services:		
Audit of accounts of subsidiaries of the Company	79	78
Taxation compliance services	22	18
Tax advisory services	6	6

7. Employees

The average number of employees was:

	2018 number	2017 number
Operations	108	111
Management	12	13
Total Employee numbers	**120**	**124**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
Continued

Their aggregate remuneration including Directors' remuneration comprised:

	2018 £'000	2017 £'000
Wages and salaries	5,139	5,255
Social security costs	542	528
Pension costs	359	319
Share based payments	12	20
LTIP share based	(7)	1
LTIP non share based	(10)	(3)
	6,035	**6,120**

The aggregate remuneration includes salary cost totalling £1,253,000 (2017: £1,168,000) 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:

	2018 £'000	2017 £'000
Wages and salaries	922	936
Social security costs	115	116
Pension costs	100	107
Share based payments charged	2	2
LTIP share based	(7)	1
LTIP non share based	(10)	(3)
	1,122	**1,159**

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 17 to 19.

8. Financial income and cost

	2018 £'000	2017 £'000
Interest receivable	1	1
Finance cost on bank overdraft	(1)	-
Finance cost on bank loan	-	(2)
Finance cost on convertible loan	(33)	(5)
Unwinding of discount on convertible loan	(4)	-
Unwinding of discount on contingent consideration	-	(5)
	(37)	**(11)**

9. Tax income

	2018 £'000	2017 restated £'000
Current tax	(165)	(100)
Prior year adjustment – current tax	(7)	(238)
Total current tax	(172)	(338)
Deferred tax	64	58
Prior year adjustment – deferred tax	6	(1)
Deferred tax re acquisition intangibles	(89)	(151)
Total deferred tax	(19)	(94)
Tax (income) for the year	(191)	(432)
Factors affecting the tax credit for the year		
Loss before tax	(451)	(375)
UK rate of taxation	19.00%	19.25%
Loss before tax multiplied by the UK rate of taxation	(86)	(72)
Effects of:		
Overseas tax rates	(3)	1
Impact of deferred tax not provided	10	18
Enhanced R&D relief	(148)	(209)
Disallowed expenses	14	32
IFRS 15 impact	(25)	
Rate differences re current tax and deferred tax	(7)	(1)
Rate difference between CT rate and rate of R&D repayment	55	38
Prior year adjustments	(1)	(239)
Tax (income)	(191)	(432)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
Continued

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

	Group			Company	
	2018 £'000	Movement £'000	2017 restated £'000	2018 £'000	2017 £'000
Internally generated intangible and fixed assets	251	(90)	341	-	-
IFRS 15	-	160	(160)	-	-
Provisions	-	-	-	-	-
Acquisition intangibles	238	(89)	327	–	–
	489	**(19)**	**508**	**-**	**-**

	Group			Company	
	2017 restated £'000	Movement restated £'000	2016 restated £'000	2017 £'000	2016 £'000
Internally generated intangible and fixed assets	341	26	315	-	-
IFRS 15	(160)	22	(182)	-	–
Provisions	-	9	(9)	-	–
Acquisition intangibles	327	(151)	478	-	–
	508	**(94)**	**602**	**-**	**–**

The UK corporation tax rate for the year is 19.00%. 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 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 Group has gross tax losses of £154,000 (2017: £205,000) for which no deferred tax asset has been recognised as the timing of their utilisation is uncertain.

10. Earnings per share

	2018 Using adjusted operating profit	2018	2017 Using adjusted operating profit restated	2017 restated
Profit/(loss) attributable to ordinary shareholders (note 2)	£120,000	£(260,000)	£734,000	£57,000
Weighted average number of shares	19,668,021	19,668,021	19,668,021	19,668,021
Basic earnings/(loss) per share	0.61 pence	(1.32) pence	3.73 pence	0.29 pence
Weighted average number of shares after dilution	19,797,067	19,668,021	19,676,018	19,676,018
Fully diluted earnings/(loss) per share	0.61 pence	(1.32) pence	3.73 pence	0.29 pence

Reconciliation of basic to diluted average number of shares:

	2018	2017
Weighted average number of shares (basic)	19,668,021	19,668,021
Effect of dilutive potential ordinary shares – employee share plans	129,046	7,997
Weighted average number of shares after dilution	19,797,067	19,676,018

There are 919,848 (2017: 1,270,732) share options not included in the above calculations, as they are underwater or have not yet vested.

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 income statement has not been included in these financial statements. The profit for the financial year for the parent Company was £1,338,000 (2017: £1,311,000) and has been approved by the Directors.

12. Goodwill

Group	Goodwill £'000
Cost	
At 1 January 2017	3,415
Additions	-
At 31 December 2017	**3,415**
Additions	**-**
At 31 December 2018	3,415

Carrying amount	
At 31 December 2018	3,415
At 31 December 2017	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 15.5% (2017: 12% to 15.5%). 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% (2017: 2.5%) 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 forecast future cashflow by 10% would result in an impairment of £341,000 for the Voyager and FCP consolidated CGU and an increase in the discount rate to 16.25% would require an impairment of £181,000. For ISV the discount rate would need to increase to over 22% or future forecast cash flows would need to fall by 32% to reduce the headroom to £nil. Cashflows in respect of Dillistone goodwill would need to reduce by over 65% or the discount rate to increase to over 36% to reduce the headroom to £nil.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
Continued

13. Other intangible assets

Group	Development costs £'000	Purchased software £'000	Acquisition intangibles £'000	Total £'000
Cost				
At 1 January 2017	6,612	34	4,172	10,818
Additions	1,358	93	-	1,451
At 31 December 2017	7,970	127	4,172	12,269
Additions	1,446	35	-	1,481
At 31 December 2018	**9,416**	**162**	**4,172**	**13,750**
Amortisation				
At 1 January 2017	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
Charge for the year	1,128	11	469	1,608
At 31 December 2018	**6,173**	**16**	**2,807**	**8,996**
Carrying amount				
At 31 December 2018	**3,243**	**146**	**1,365**	**4,754**
At 31 December 2017	2,925	122	1,834	4,881

Acquisition intangibles can be summarised as follows:

	Brand £'000	Developed technology £'000	Brand and IP £'000	Contractual and non-contractual customer relationships £'000	Total £'000
NBV					
At 1 January 2018	**113**	**176**	**481**	**1,064**	**1,834**
Amortisation	(13)	(53)	(41)	(362)	(469)
At 31 December 2018	**100**	**123**	**440**	**702**	**1,365**

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 discount rates.

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

The Company has no intangible assets.

14. Property, plant and equipment

Group	Land and buildings £'000	Office & computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
At 1 January 2017	186	830	168	1,184
Currency impact	-	(6)	(1)	(7)
Additions	-	47	8	55
Reclassification	-	10	(10)	-
Disposals	–	(20)	-	(20)
At 31 December 2017	186	861	165	1,212
Currency impact	-	4	1	5
Additions	-	55	-	55
At 31 December 2018	**186**	**920**	**166**	**1,272**
Depreciation				
At 1 January 2017	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
Currency impact	-	4	1	5
Charge for the year	37	63	6	106
At 31 December 2018	**157**	**841**	**161**	**1,159**
Carrying amount				
At 31 December 2018	29	79	5	113
At 31 December 2017	**66**	**87**	**11**	**164**

The Company has no property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
Continued

15. Non-current asset investments

Company	Investments in subsidiaries £'000
Cost	
At 1 January 2017	7,601
Additions	1
At 31 December 2017	7,602
Impairment	(451)
At 31 December 2018	**7,151**

The addition in 2017 related to the formation of GatedTalent Limited.

Investments are reviewed when evidence exists that there may be a loss in value or in certain circumstances where dividends are paid by the subsidiary. In 2018, 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%. 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 an impairment was required. No impairment loss was required for ISV and cashflows would need to reduce by over 28% or the discount rate to increase to more than 22% before impairment was considered necessary. No impairment loss was required for Dillistone and cashflows would need to reduce by over 70% 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	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Licences for resale	3	3	-	-

17. Trade and other receivables

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade receivables – net	1,171	1,377	-	-
Group receivables	-	-	1,253	915
Other current assets	35	37	-	-
Prepayments and accrued income	316	263	36	19
	1,522	**1,677**	**1,289**	**934**

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.

Trade receivables are recorded and measured in accordance with note 1.14 above. The Group applies the IFRS 9 simplified approach to measuring expected credit losses (ECLs) using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing.

The expected loss rates are based on the Group's historical credit losses experienced over the three-year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers. The Group has identified gross domestic product (GDP) as the key macroeconomic factor for each geographical region where the Group operates. It has also considered the impact of the UK's exit from the European Union on the recoverability of its trade receivables. This has resulted in a range of potential loss rates and provision levels, as set out below. See note 1.1 and 1.14 for further details on the Group's approach to calculating ECLs and the material estimates and judgements involved.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
Continued

	Current £'000	From 1 to 30 days past due £'000	From 31 to 60 days past due £'000	Greater than 60 days past due £'000	Total £'000
Trade Receivables					
Gross Carrying Amount	1,064	116	19	43	1,242
Loss Allowance Provision	48	10	3	11	71
Expected Loss Rate	4%	8%	16%	25%	

The movement in the provision for loss allowances is as follows:

	£'000
Balance as at 1 January 2017	97
Increase during the year	125
Amounts written off as uncollectible	(74)
Balance as at 31 December 2017	148
Unused amounts reversed	(2)
Amounts written off as uncollectible	(75)
Balance as at 31 December 2018	**71**

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

	2018 £'000	2017 £'000
Current	1,064	1,205
Past due date:		
Up to 30 days overdue	116	54
More than 30 days overdue	62	118
Total	**1,242**	**1,377**

The Company's group receivables, being amounts due from wholly-owned subsidiaries, are repayable on demand. Additionally, all companies are covered by a group-wide guarantee.

The Parent Company has determined that Credit risk for receivables from Group Company's has not increased significantly since their initial recognition. The Parent Company have considered a range of scenarios relating to amounts to be received from amounts receivable from Group Company's, and the likelihood of those outcomes. The impact of these scenarios using the 12-month ECL model disclosed in note 1.14 was not material to the Company.

18. Trade and other payables

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Current liabilities				
Trade payables	776	664	122	73
Group payables	-	-	824	2,135
Deferred income	2,887	3,029	-	-
Accruals	707	936	145	195
Contingent consideration	-	146	-	146
	4,370	**4,775**	**1,091**	**2,549**

Non-current liabilities	**£'000**	**£'000**	**£'000**	**£'000**
Deferred Income	688	782	-	-
Cash settled LTIP	2	12	2	12
	690	**794**	**2**	**12**

Contingent consideration is valued at fair value. Further details of the contingent consideration are given in note 24.

The deferred income in 2018 and 2017 represents the entire balance of contract liabilities from contracts with customers. The movement on this balance is the revenue recognised in the reporting period.

19. Cash and cash equivalents

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Cash balances available on demand	725	1,390	-	99

20. Borrowings

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Current bank borrowings	-	-	15	-
Current loan note borrowings	14	5	14	5
Non current loan note borrowings	390	386	390	386
Total borrowings	**404**	**391**	**419**	**391**

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
Continued

The Group has an overdraft facility in the UK of £200,000 which was unused at the year-end (2017: unused). Under the banking arrangements all UK accounts are netted.

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.

Reconciliation of liabilities arising from financing activities

	2017 £'000	Cashflows £'000	Non cash changes – interest adjustment £'000	Closing 2018 £'000
Long term borrowings				
Convertible loan note	386	-	4	390
	386	-	4	390

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

21. Share capital

Allotted, called up and fully paid	2018 £'000	2017 £'000
Ordinary shares of 5p each	983	983

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

Shares issued and fully paid	2018 Number	2017 Number
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 2018, the Group had future total commitments under non-cancellable operating leases as follows:

	2018 £'000	2017 £'000
Commitments payable:	182	295
Within one year	172	158
Between two and five years	10	137

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 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 no grants of options in 2018.

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

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%

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

	2018		2017	
	No of options	WAEP	No of options	WAEP
Outstanding at the beginning of year	2,367,445	74.75	1,364,351	89.15
Granted during the year	-	-	1,066,713	57.28
Exercised during the year	(-)	-	(-)	-
Forfeited during the year	(391,884)	101.73	(63,619)	90.55
Outstanding at the end of the year	1,975,561	69.40	2,367,445	74.75
Exercisable at the year end	403,000	88.15	384,500	88.76

The Company's mid-market share price on 31 December 2018 was 47.5p. The average mid- market share price in 2018 was 67.07p.

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 £5,000 (2017: £20,000).

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	79,500	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	10,000	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	182,000	97.00
EMI	03/02/2015	03/02/2017	02/02/2025	58,500	90.50
EMI	29/06/2016	29/06/2019	28/06/2026	441,500	78.50
Sharesave	14/10/2016	01/11/2019	30/04/2020	105,348	77.80
EMI (LTIP)	09/11/2017	09/11/2020	08/11/2027	814,000	58.00
EMI	09/11/2017	09/11/2020	08/11/2027	80,000	58.00
Sharesave	09/11/2017	01/12/2020	31/5/2021	131,713	52.20
				1,975,561	

The weighted average remaining contractual life of options at 31 December 2018 was 6.9 years (2017: 7.8 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 2018, the credit in respect of the LTIP schemes, which are share based and require separate disclosure under IFRS 2, was (£7,000) (2017: £1,000).

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. The final payment of £146,000 was made in 2018.

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 2018 was:

At 31 December 2018	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)	1,205	-	1,253	-
Cash and cash equivalents	-	725	-	-
Total	**1,205**	**725**	**1,253**	**-**

The interest rate profile of the Group's financial assets at 31 December 2017 was:

At 31 December 2017	Group		Company	
	Group Non interest bearing financial assets £'000	Floating rate financial assets £'000	Non interest bearing financial assets £'000	Company 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 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 2018	Group		Company	
	Non interest bearing financial liabilities £'000	Fixed rate financial liabilities £'000	Non interest bearing financial liabilities £'000	Fixed rate financial liabilities £'000
Trade and other payables (current liabilities)	1,126	-	1,068	-
Trade and other payables (non-current liabilities)	2	-	2	-
Borrowings – convertible loan note	-	404	-	404
Borrowings – bank	-	-	-	15
	1,128	**404**	**1,070**	**419**

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At 31 December 2017	Group		Company	
	Non interest bearing financial liabilities £'000	Floating rate financial liabilities £'000	Non interest bearing financial liabilities £'000	Floating rate financial liabilities £'000
Trade and other payables (current liabilities)	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**

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

(ii) Credit risk

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

Trade receivables are adjusted for credit risk by applying the impairment methodology set out in IFRS 9 (see note 1.14). Provisions for loss allowances arising from expected credit losses are booked against the carrying value of trade receivables (see note 17). Once the Group has determined that there is no reasonable expectation of recovery, the relevant trade receivable balances are written off against the loss allowance provision. Indicators that recovery cannot reasonably be expected include the conclusion of legal proceedings or 3rd-party debt collection without full recovery.

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 trade receivables are past due as at the reporting date. The company bases its provisions on trade receivable balances based on the expected credit loss model ('ECL') as required by IFRS. Information on financial assets past due 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	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade and other receivables (current assets)	1,205	1,414	1,253	915
Cash and cash equivalents	725	1,390	-	99
Total	**1,930**	**2,804**	**1,253**	**1,014**

The Company's other receivables are primarily intercompany loans made to wholly-owned subsidiaries and supported by a group-wide guarantee and repayable on demand. The Company has followed the considerations required under IFRS 9 on the above and as such, no provision has been raised on these balances. See note 17.

(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 2018, the Group and Company's financial liabilities (excluding deferred income, payroll taxes, VAT and similar taxes) have contractual cashflows as summarised below:

Group **At 31 December 2018**	**Carrying amount £'000**	**< 1 year £'000**	**1-2 years £'000**	**2-5 years £'000**
Trade and other payables (current liabilities)	1,126	1,126	-	-
Trade and other payables (non-current liabilities)	2	-	2	-
Borrowings	400	-	400	-
	1,528	**1,126**	**402**	**-**

At 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

The Group forecasts its cash requirements through its budget processes and looks to ensure that it has sufficient cash over the coming year to meet liabilities as they fall due and over each subsequent annual period covered by the 3 year forecast. As such it considers the time bands set out above the most appropriate representation of its liquidity risk profile.

Company **At 31 December 2018**	**Carrying amount £'000**	**< 1 year £'000**	**1-2 years £'000**	**2-5 years £'000**
Trade and other payables (current liabilities)	1,068	1,068	-	-
Trade and other payables (non-current liabilities)	2	-	2	-
Borrowings	400	-	400	-
Bank overdraft	15	15	-	-
	1,485	**1,083**	**402**	

At 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**

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.

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For the year ended 31 December 2018
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(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 £1,105,000 and liabilities totalling £695,000 denominated in Euros (2017: assets totalling £1,837,000 and liabilities totalling £443,000), assets totalling £1,239,000 and liabilities totalling £1,187,000 denominated in US Dollars (2017: assets totalling £1,655,000 and liabilities totalling £997,000) and assets totalling £497,000 and liabilities totalling £473,000 denominated in Australian Dollars (2017: assets totalling £441,000 and liabilities totalling £447,000).

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

	Group	
	2018 £'000	2017 £'000
Euros	26	31
US Dollars	4	6
Australian Dollars	(1)	(2)
	29	**35**

At the year end, the Company had liabilities totalling £116,000 denominated in Euros (2017: liabilities totalling £115,000), assets totalling £288,000 denominated in US Dollars (2017: assets totalling £257,000) and assets totalling £42,000 denominated in Australian Dollars (2017: assets totalling £36,000).

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	
	2018 £'000	2017 £'000
Euros	(6)	(6)
US Dollars	15	12
Australian Dollars	2	2
	11	**8**

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	2018 £'000	2017 restated £'000
Total borrowings	20	404	391
Less cash or cash equivalents		(725)	(1,390)
Net cash		**(321)**	**(999)**
Total equity		4,849	5,232
Total capital gearing ratio		0%	0%

Summary of financial assets and liabilities by category

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

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Loans and receivables				
Cash and cash equivalents	725	1,390	-	99
Trade and other receivables	1,205	1,414	1,253	915
	1,930	**2,804**	**1,253**	**1,014**

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Financial liabilities held at amortised cost				
Trade and other payables	1,128	1,208	1,070	2,394
Borrowings	404	391	404	391
Bank overdraft	-	-	15	-
Financial liabilities held at fair value				
Contingent consideration	-	146	-	146
	1,532	**1,745**	**1,489**	**2,931**

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 2018 and 31 December 2017:

	2018 £'000 Level 2	2017 £'000 Level 2
Contingent consideration	-	146

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)

In 2017, 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 was paid in 2018.

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For the year ended 31 December 2018
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26. IFRS 15 impact on 2017 and 2018 results

The material change to the Group's reported revenue following adoption of IFRS 15 arose on the timing of recognising revenue on perpetual licences sold with mandatory support contracts. Previously, these licences were deemed separate from the support contract, whereas under IFRS 15 they represent one performance obligation. Revenue on such licence sales was thus recognised at a point in time, on the customer's practical acceptance of the software. Under IFRS 15, this revenue is recognised over time.

As the actual life of the support contract is unknown at inception, an estimate of 5 years has been made following analysis of the historic turnover rates of support contracts. If this period was shorter, revenue would be recognised more quickly and vice versa. See note 1.4 for further details of how revenue is recognised following the adoption of IFRS 15.

Revenue from previous periods is thus deferred and recognised later. Adjustments are required to:

- Revenue in the period, being revenue released as deferred from prior periods and current period revenue deferred;
- Retained earnings, being revenue deferred from prior periods and cumulative tax effects;
- Trade and other liabilities both current and non-current, being deferred revenue; and
- Deferred and current tax, arising on revenue already subject to tax that will be recognised in future periods.

The results for 2018 fully incorporate these changes. As IFRS 15 has been adopted retrospectively, the reported results for 2017 must also be adjusted as if that standard applied in full to that period.

The impact of adopting IFRS 15 therefore had the following effect on the Group's primary financial statements:

Impact on the Consolidated Statement of Comprehensive income for the year ended 31 December 2017

	As reported previously £'000	Effect £'000	As reported under IFRS 15 £'000
Revenue	9,582	150	9,732
Cost of sales	(1,536)	-	(1,536)
Gross profit	8,046	150	8,196
Administrative expenses	(8,560)	-	(8,560)
Result from operating activities	(514)	150	(364)
Financial income	1	-	1
Financial cost	(12)	-	(12)
Loss before tax	(525)	150	(375)
Tax income	454	(22)	432
(Loss)/profit for the period	(71)	128	57
Earnings per share			
Basic	(0.36)p		0.29p
Diluted	(0.36)p		0.29p

Impact on Consolidated statement of financial position as at 31 December 2017

	As reported previously £'000	Effect £'000	As reported under IFRS 15 £'000
ASSETS			
Non-current assets	8,460	-	8,460
Current assets	3,070	-	3,070
Total assets	11,530	-	11,530
EQUITY AND LIABILITIES			
Equity			
Share capital	983	-	983
Share premium	1,631	-	1,631
Merger reserve	365	-	365
Convertible loan reserve	14	-	14
Retained earnings	3,107	(1,062)	2,045
Share option reserve	101	-	101
Translation reserve	93	-	93
Total equity	6,294	(1,062)	5,232
Liabilities			
Non current liabilities			
Trade and other payables	12	782	794
Borrowings	386	-	386
Deferred tax	668	(160)	508
Current liabilities			
Trade and other payables	4,335	440	4,775
Borrowings	5	-	5
Current tax (receivable)/payable	(170)	-	(170)
Total liabilities	5,236	1,062	6,298
Total liabilities and equity	**11,530**	**-**	**11,530**

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Impact on Consolidated statement of cash flows for year ended 31 December 2017

	As reported previously £'000	Effect £'000	As reported under IFRS 15 £'000
Operating activities			
Loss before taxation	(525)	150	(375)
Operating cash flows before movements in working capital	1,432	150	1,582
Decrease in receivables	573	-	573
Decrease in inventories	2	-	2
Decrease in payables	(123)	(150)	(273)
Taxation Paid	(12)	-	(12)
Net Cash generated by operating activities	**1,872**	**-**	**1,872**

Impact on Consolidated Statement of Comprehensive Income for year ended 31 December 2018

See Note 1.4 for details of how revenue income is recognised following the adoption of IFRS 15.

	Under previous accounting policy £'000	Effect of IFRS 15 £'000	As reported under IFRS 15 £'000
Revenue	8,588	104	8,692
Cost of sales	(1,054)	-	(1,054)
Gross profit	7,534	104	7,638
Administrative expenses	(8,052)	-	(8,052)
Result from operating activities	(518)	104	(414)
Financial income	1	-	1
Financial cost	(38)	-	(38)
Loss before tax	(555)	104	(451)
Tax income	206	(15)	191
(Loss)/profit for the period	(349)	89	(260)
Earnings per share			
Basic	(1.85)p		(1.32)p
Diluted	(1.85)p		(1.32)p

Impact on Consolidated Statement of Financial Position for year ended 31 December 2018

	Under previous accounting policy £'000	Effect of IFRS 15 £'000	As reported under IFRS 15 £'000
ASSETS			
Non-current assets	8,282	-	8,282
Current assets	2,250	-	2,250
Total assets	10,532	-	10,532
EQUITY AND LIABILITIES			
Equity			
Share capital	983	-	983
Share premium	1,631	-	1,631
Merger reserve	365	-	365
Convertible loan reserve	14	-	14
Retained earnings	2,659	(972)	1,687
Share option reserve	106	-	106
Translation reserve	73	(10)	63
Total equity	5,831	(982)	4,849
Liabilities			
Non current liabilities			
Trade and other payables	2	688	690
Borrowings	390	-	390
Deferred tax	518	(29)	489
Current liabilities			
Trade and other payables	3,931	439	4,370
Borrowings	14	-	14
Current tax (receivable)/payable	(154)	(116)	(270)
Total liabilities	4,701	982	5,683
Total liabilities and equity	**10,532**	**-**	**10,532**

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Impact on Consolidated Statement of Cash flows for year ended 31 December 2018

	Under previous accounting policy £'000	Effect of IFRS 15 £'000	As reported under IFRS 15 £'000
Operating activities			
Loss before taxation	(555)	104	(451)
Operating cash flows before movements in working capital	1,271	104	1,375
Decrease in receivables	171	-	171
Decrease in inventories	-	-	-
Decrease in payables	(367)	(104)	(471)
Taxation Paid	65	-	65
Net Cash generated by operating activities	**1,140**	**-**	**1,140**

27. Prior year reclassification

The Group reclassified contractor and internal development costs previously recognised as cost of sales as administrative expenses during the period. The 2017 comparatives have also been restated on this basis. The impact in 2018 was £0.216m (2017: £0.289m).

28. Post Balance Sheet events

In February 2019 the Group announced a major restructuring and closing of its London Office. The Board anticipates that the efficiencies gained from merging the function teams across the Group into fewer locations will allow the Group to maintain current levels of client service and product development investment while delivering a significant reduction in costs from 2020 onwards. This process will inevitably lead to the Group incurring restructuring costs during 2019, which are currently estimated to be in the region of £500,000 to £900,000.

29. 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'.

30. Related party transactions

Group

The Directors received dividends paid by the Company of £43,000 (2017: £240,000).

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 £10,000 (2017: £30,000) (excluding Employer's NI) and related to estimated bonus payments payable in relation to 2018.

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 dividend of £589,000 from its subsidiary company Dillistone Systems (US) Inc (2017: £nil). At the year end, Dillistone Systems (US) Inc owed £282,000 (2017: owed £257,000) to the Company.

During the current year Dillistone Systems Limited paid a management charge of £264,000 (2017: £306,000) to Dillistone Group Plc. At the year end Dillistone Systems Limited was owed £185,000 (2017: £752,000).

The Company was owed £42,000 (2017: £36,000) by Dillistone Systems (Australia) Pty Limited at the year end.

Voyager Software paid a management charge of £144,000 (2017: £144,000) and a dividend of £500,000 (2017: £nil). It owed the Company £255,000 at the year end (2017: £187,000).

FCP Internet Limited paid a management charge of £84,000 (2017: £84,000) and a dividend of £500,000 (2017: £1,000,000) and was owed by the Company £538,000 at the year end (2017: owed by the Company £754,000).

A management charge of £60,000 (2017: £60,000) was received from ISV Software together with a dividend of £250,000 (2017: £400,000) and at the year end the Company owed ISV £100,000 (2017: £208,000).

GatedTalent Limited paid a management charge of £50,000 (2017: £86,000) and owed the Company £654,000 at the year end (2017: £373,000).

FCP Internet Holdings Limited was owed by the Company £2,000 at the year end (2017: owed by the Company £2,000).

Woodcote Software Limited owed the Company £13,000 (2017: £13,000).

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

31. Dividends

The dividends paid in 2018 and 2017 were £98,000 (0.5p per share) and £551,000 (2.8p per share) respectively. No final dividend in respect of the year ended 31 December 2018 is proposed.

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

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