ANNUAL REPORT **2019**

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Dillistone Group Plc

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DILLISTONE GROUP PLC

EMPOWERING RECRUITMENT GLOBALLY THROUGH TECHNOLOGY

Dillistone Group Plc is a leading global provider of software and services that enable recruitment firms and in-house recruiters to better manage their selection process and address the training needs of individuals. Dillistone Group works with 2,000+ clients in over 60 countries.

Contents

HIGHLIGHTS

82%

Recurring revenues[1]
2018: 82%)

- Successfully completed the group restructuring to time and at the lower end of forecast cost. New operating structure working well with reduced cost base
- Reorganisation financed through a £0.5m bank loan
- Recurring revenues[1] represent 82% (2018: 82%) of Group revenue
- Adjusted operating loss[2] of £0.207m (2018: profit £0.055m) before acquisition related, reorganisation and other costs
- Loss for the year of £0.842m (2018: loss £0.260m) reflecting the costs associated with reorganising the business
- Cash at 28 July 2020 was £2.1m, reflecting post period CBIL loan of £1.5m.

Commenting on the results and prospects, Giles Fearnley, Non-Executive Chairman, said:

“The changes made to the business in 2019 have improved our ability to meet the needs of our global clients swiftly and efficiently, while significantly reducing our cost base, and placed the business in a situation where we had fully anticipated a return to profitability in H1 of 2020.

After a strong start to the year, the impact of the Covid-19 pandemic has been significant but swift action to manage the cost base during this period, coupled with working to support our clients and improved new business performance, is enabling the company to effectively work through the challenges.

With a healthy cash balance and having protected, and now, increasing investment in our product development, the Board is optimistic that the business will emerge strongly as the economy recovers.”

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 and reorganisation and other costs. See note 2.

DILLISTONE GROUP AT A GLANCE

The Group traded through 3 divisions for most of 2019:

- Dillistone Systems Division
- Voyager Software Division
- GatedTalent

IKIRU PEOPLE

In December 2019 the Group restructured the business, collapsing the divisional structure and becoming a brand based business under the Ikiru People trading name.

Ikiru People is a leader in the supply of technology solutions and services to recruitment, staffing and executive search businesses, as well as corporate HR teams around the world.

Providing the platforms they need to test and train candidates, support further development, enhance the recruitment process and source the best talent.

Operating in more than 60 countries over six continents and working with hundreds of firms, we boast more than 30 years in the market and 100s of years of collective experience. While the Ikiru People brand is the new face of the group, one thing has never changed: our dedication to delivering a fast and professional service that puts our customers first.

OUR BRANDS

FileFinder

FileFinder is a leading cloud executive search solution used by thousands of executive recruiters globally. An easy-to-use yet feature-rich management app designed specifically for executive search and headhunting.

GatedTalent

Top executive firms don't run job ads — they headhunt. GatedTalent is the private network designed to allow executives to share their information and achievements with recruiters, all while supporting GDPR compliance. Unlike our other products, GatedTalent generates both B2B and B2C revenues.

ISV.online

A market leader in online skills testing, working with consultancies and employers to help them secure and retain the best talent. ISV.online gets the recruitment process right by avoiding bad hires and improving onboarding.

Voyager

Voyager recruitment software is the easy-to-use, innovative, all-in-one solution that streamlines recruitment processes and automates mundane admin tasks, making businesses more efficient, customer-centric and competitive.

CHAIRMAN'S STATEMENT

For the year ended 31 December 2019

2019 was a year of significant change. This started in February when the Group announced a fundamental reorganisation of the business. This involved merging the two UK offices into a single, expanded location in Basingstoke, together with also relocating and expanding our Eastleigh development facility. The Group has streamlined its corporate structures and operations, resulting in the UK businesses being combined into one trading entity and renamed Ikiru People Limited. A similar reorganisation has occurred in Australia. These changes came into effect on 31 December 2019, were delivered on time and within budget, and are delivering the planned efficiencies.

The restructuring was an important step in our plan to streamline our operating procedures while maintaining our excellent reputation for client service in order that the Group could deliver significantly improved performance starting immediately from 2020.

2020 started well for the Group with our early months delivering results ahead of internal expectations. However, the impact of the Covid-19 pandemic on our target market – the recruitment sector – is clear. We've seen many of our clients shrink, with some clients closing. We have additionally supported many clients through agreeing discounted periods and deferred terms.

The Board has reacted swiftly, taking advantage of various government schemes, including furloughing, and staff unanimously supporting a temporary pay-cut, including all executive and non-executive directors. In June 2020, the Company secured a loan of £1.5m under the UK Government's Business Interruption Loan scheme. This enables us to continue to deliver and develop products with confidence.

The reorganisation in 2019 resulted in some staff working from home and this led to investment in infrastructure to support this. This therefore enabled the Group immediately to move to home working for the majority of staff as a result of the pandemic and still operate efficiently and effectively.

Looking back at 2019, overall, Group revenue fell 8% to £8.027m, of which recurring revenue fell 8% to £6.593m of which £0.130m related to the loss of a major client as previously announced.

There was an adjusted operating loss in 2019 of £0.207m (2018: Profit £0.055m), mainly due to the fall in revenue and with the full benefits of the reorganisation not expecting to be seen until 2020. The operating loss including reorganisation and acquisition related items was £1.090m (2018: loss £0.414m).

Dividends

The Group is not recommending a final dividend in respect of the year to 31 December 2019 (2018: nil).

Staff

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 2019 and for the professional way they have all risen to the challenges of the pandemic, continuing to deliver for our clients. They ensured that we continued to deliver excellent service throughout 2019's major restructuring and it is through their efforts, commitment and determination that we continue to be a leading technology provider.

Corporate governance

It is the Board's duty to ensure that the Group is managed for long-term benefit of all stakeholders.

We have made a number of changes to our Group Board over the last 12 months. I would like to sincerely thank my predecessor, Dr Mike Love, for his outstanding leadership of the Board over last 9 years. I am very grateful to him for staying on in a non-executive role to allow for a smooth transition.

I also thank Rory Howard and Alistair Milne who both stepped down from the Board as the restructuring completed. They have both contributed extensively to the business over very many years. I am delighted to welcome Paul Mather and Simon Warburton to the Board. Both Paul and Simon joined the Group in 2011 on the acquisition of Voyager and have been leading members of the Executive Team.

Details of our governance processes and my role as Chairman of the Board are included in the corporate governance section that follows the strategic report.

Outlook

The Group was trading ahead of internal targets for 2020 prior to the impact of Covid-19 and swift action by management has helped mitigate some of the impact of the pandemic.

The majority of our clients are in the recruitment sector and this has been significantly affected by the recession. Our client base has reduced in size with many of our clients having fewer licences than previously. We believe this would be true for virtually any supplier in our sector.

However, we are pleased to report that – while revenue from existing clients has fallen – the business has improved its new business performance on the same period in 2019, winning more new contracts for a higher combined value, despite our decision to withdraw our "Evolve" product from the market. While this will not make up for the loss of revenue from existing clients, it demonstrates our ability to compete successfully and gives us confidence of a return to growth when markets return to a semblance of normality.

However, the most likely outcome for H1 will be a small and much reduced loss compared with the prior year. It remains too early to quantify the impact of the pandemic over the full year, but the Board currently expects to see an improvement on our 2019 result.

With a healthy cash balance and having protected, and now, increasing investment in our product development, the Board is optimistic that the business will emerge strongly as the economy recovers.

Giles Fearnley
Non-Executive Chairman
29 July 2020

CEO'S REVIEW

For the year ended 31 December 2019

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

Strategy and objectives

In light of Covid-19, the Board has taken the view that until any material business risk from the pandemic is behind us, our objectives would be revised so that we can successfully navigate the crisis. We will strive to ensure that we exit the current crisis in a strong position with products that meet the needs of clients. Consequently, our focus will be to:

- Ensure our staff and their families stay safe, engaged and effective;
- Take all reasonable steps we can to help our clients through a challenging period for recruitment;
- Protect and prioritise our product and development efforts around solutions that reflect the needs of a post Covid world; and
- Take appropriate action to maintain a strong and stable financial position, throughout this period and into the future.

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 has undertaken a major restructuring exercise to address the longer term performance of the business:

	FY 2018 £000	FY 2019 £000	Measure used by management	Met /Not met
Total revenues	8,692	8,027	year on year growth	not met
Recurring revenues	7,154	6,593	year on year growth	not met
Non recurring revenues	1,169	1,160	year on year growth	not met
Adjusted profit/(loss) before tax	18	(298)	year on year growth	not met
Cash	725	402	sufficient cash resources maintained	met

Adjusted profit before tax is statutory profit before, related intangible amortisation, reorganisation and other costs. See note 2 and note 5.

CEO'S REVIEW
Continued

Restructuring

During the year, the Group merged two UK offices into a single, expanded location in Basingstoke. We also relocated and expanded our Eastleigh development facility. The Group also streamlined its corporate structures and operations to achieve efficiencies across the business. This resulted in the five UK businesses being combined into one trading entity subsequently renamed Ikiru People Limited. A similar reorganisation has occurred in Australia combining our two companies into one and renamed as Ikiru People Pty Limited. Our sole business in the US was also renamed. Ikiru People Inc.

The restructuring and reorganisation has allowed us to integrate teams across the business and to leverage knowledge across the Group to accelerate performance and improve the quality of our services to our clients.

As part of the reorganisation, a review was made of the Company product strategy. As a result of this review, one of the Group's six core products, Evolve, was withdrawn from the market at the end of 2019. Going forward, product development investment has been refocussed with a view to prioritising development which will lead to significant long term growth, rather than short term product enhancements. This has led the Company to increase investment in areas such as user experience and quality assurance.

At the time that we announced our restructuring plans, we anticipated that the costs of the restructuring would be in the region of £500,000 to £900,000. We are pleased to report that costs were at the lower end of this estimate at £578,000. These costs were met without recourse to equity funding from shareholders.

Our business model

The business was previously split into three Divisions. Dillistone Systems and Voyager Software and GatedTalent. The reorganisation has brought all of these businesses together into effectively one division with a focus more on the products we sell than on divisional structures.

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 service fees from executives.

The business operates out of Europe, the US and Australia but services clients globally. As well as supplying and supporting our software we also host the software for a proportion of our clients. This is done through Microsoft Azure and AWS data centres in Europe, the Americas, Singapore and Australia.

Group review of the business

2019 saw recurring revenues fall 8% to £6.593m (2018: £7.154m) of which £0.130m related to the previously announced loss of a major client and with attrition exceeding new contract wins in the year. Non-recurring revenues were in line with the previous year at £1.160m (2018: £1.169m). As a result, overall revenues decreased by 8% to £8.027m (2018: £8.692m) with recurring revenues representing 82% of Group revenues (2018: 82%). Cost of sales reduced 19% to £0.849m (2018: £1.054m).

Adjusted EBITDA[1] was down 1% to £1.282m (2018: £1.301m). There was an adjusted operating loss of £0.207m (2018: profit £0.055m) and there was a pre-tax loss before acquisition related items and reorganisation and other adjustments of £(0.298)m (2018: profit £0.018m). The operating loss for the year increased to £1.090m (2018: loss £0.414m) with reorganisation and other costs totalling £0.578m (2018: £nil) and acquisition related amortisation of £0.305m (2018: £0.469m). The loss for the year was £0.842m (2018: loss £0.260m). Cash at the year end was £0.402m (2018: £0.725m).

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

Divisional Reviews as structured through 2019

Dillistone Systems

The Dillistone Systems division was 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.

The Division accounts for 49% (2018: 48%) of the Group's revenue and it saw revenue fall 7% to £3.895m (2018: £4.195m).

The executive search market remains a key market for our business and is one we continue to invest in significantly.

Earnings before interest, tax, depreciation and amortisation ('EBITDA') improved to £1.021m (2018: £0.723m) as costs improved despite reduced sales. The total amortisation and depreciation charge was £0.747m (2018: £0.644m). Operating profit for 2019 was £0.094m (2018: £0.079m) after reorganisation and other costs of £0.180m.

Voyager Software

Voyager Software was 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 2019, the Voyager Software division accounted for 47% (2018: 51%) of Group revenues. The Division's revenues decreased by 14% to £3.795m (2018: £4.429m) £0.130m of this due to the previously announced loss of a major client. EBITDA decreased to £0.691m (2018: £1.003m). Amortisation and depreciation increased to £0.553m (2018: £0.475m). Divisional operating loss was £(0.034)m after reorganisation and other costs of £0.172m (2018: £0.528m).

2019 saw some major developments in the Division including:

- The addition of IR35 support for both public and private sector workers in our Infinity and Mid-Office pay and bill solution
- Significantly improved support for the placement of shift based temps
- Release of a full suite of Power BI based business intelligence function to clients on our SaaS platform
- Enhancements to our ISV.Online suite
- Withdrawal of the Evolve product from the market, successfully switching the majority of clients onto our Infinity application

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.

Revenue is being generated from executive recruiters through subscriptions to the platform and through Member Services generating a premium B2C revenue stream for the Division.

The Division generated revenue of £0.337m (2018: £0.068m) and made an operating loss before reorganisation and other costs of £0.484m (2018 loss: 0.612m) after depreciation and amortisation charges of £0.189m (2018: £0.127m). The reorganisation and other costs credit of £1.427m mainly related to the write off of intercompany funding from Dillistone Group which was not expected to be recoverable in the foreseeable future. In 2020, although we no longer report profits on a divisional level, it is the view of the Board that the GatedTalent product is now consistently generating cash.

Following the reorganisation, the divisional structure has been dismantled and in 2020 the business will not report on a divisional basis.

Covid-19

The Impact of Covid-19 pandemic has had a major impact on the world economy and in our target market – recruitment. This has impacted our business as we have seen many of our clients shrink, with other clients closing. This directly impacts our revenue.

We reacted swiftly to minimise the impact of Covid-19, taking the following actions:

- Approximately 20% of our UK staff have been furloughed under the government scheme
- Other staff and Directors have agreed to a temporary pay cut
- The vast majority of our staff switched to home working
- Our clients were offered support packages to help them survive the period and, hopefully, remain as customers
- Used government support in other jurisdictions where appropriate
- Agreed the postponement of bank loan repayments on our £500,000 loan for 6 months
- Obtained in June 2020 a £1.5m loan under the Government's Business Interruption loan scheme

Uncertainty around the scale, timing and impact of the coronavirus pandemic means it is difficult to give meaningful external guidance for forecasts in the year ahead. We have analysed a range of outcomes for the current year for different sales scenarios. Further details are contained in Note 1.2 on Going Concern. We have performed stress testing on our cashflows, to determine what is the maximum strain that the business could bear over the next 12 months in respect of the potential impacts of Covid-19. We are pleased to note that, with the funding support in place, our Balance Sheet is now strong, with significant cash available to us at very competitive rates.

Section 172 Statement

Recent legislation requires that directors include a separate statement in the annual report that explains how they have had regard to wider stakeholder needs when performing their duty under Section 172(1) of the Companies Act 2006. This duty requires that a director of a company must act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

a) the likely consequences of any decision in the long term;

b) the interests of the company's employees;

c) the need to foster the company's business relationships with suppliers, customers and others;

d) the impact of the company's operations on the community and the environment;

e) the desirability of the company maintaining a reputation for high standards of business conduct; and

f) the need to act fairly as between members of the company.

CEO'S REVIEW
Continued

Guidance recommends that in connection with its statement, the board describe in general terms how key stakeholders, as well as issues relevant to key decisions, are identified, and also the processes for engaging with key stakeholders and understanding those issues. It is the board's view that these requirements are predominantly addressed in the corporate governance report on pages 13 to 18, Guidance also recommends that more detailed description is limited to matters that are of strategic importance in order to remain meaningful and informative for shareholders. The board believes that three decisions taken during the year fall into this category, and engaged with internal and external stakeholders on this. These are:

- The decision to restructure the business and close the London office. This is described in the Chairman's Statement and the CEO report. The restructuring has allowed the business to integrate teams and to leverage knowledge across the Group to accelerate performance and improve the quality of our services to its clients. Significant internal discussion with staff took place throughout the reorganisation. The restructure also leads to a reduced cost base which should increase long term value for shareholders.
- The decision to finance the restructuring through a bank loan of £500,000 rather than recourse to shareholders. The loan was for a 2 year period and as it was for a short term period, the Board considered that it was in the interests of shareholders to raise this money via a bank loan, rather than dilute shareholders by carrying out a placing.
- A review was made of the company product strategy. This has led to product development investment being refocussed with a view to prioritising development which will lead to significant long term growth, rather than short term product enhancements. This has led the Company to increase investment in areas such as user experience and quality assurance. This should increase long term shareholder value.

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 bank loan, 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 and is not dependent on a small number of customers. Covid-19 may impact on a customer's ability to pay, though this is not expected to impact on 2019 year end balances. The Group will consider the impact of Covid-19 as part of its credit risk management procedures in 2020.

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 and on the translation of overseas results.

Liquidity risk

The Group produces 3 year cashflows to help ensure that it has the liquid resources it requires. This gives the Group the ability to plan for necessary borrowings or fund raisings to meet the needs of the business.

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. 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 not function as expected. 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. Agile project methodology so stakeholders have regular visibility and influence on what is being developed.
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. Support provided to clients during the Covid crisis. The Group continues to invest in new products with new features being added.
Competitor activity	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 2019 saw the continued development of temp functionality to Infinity, and the continued development of ISV Online, FileFinder and GatedTalent. The Group continues to innovate and provide solutions to client needs. The Group continues to look into developing new products and additional features to more readily compete.
Business continuity risks associated with information systems, operational failure, 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 provided by third parties. Plans are regularly reviewed on how to improve data centre management. 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. Information security committee meets monthly to review appropriate risks and strategies.

CEO'S REVIEW
Continued

Principal risks and uncertainties
Continued

Risk	Potential adverse impact	Mitigation
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 and benefits packages. Appraisals are carried out which also consider individuals' personal development. Cross training being carried out where possible.
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 in 2019 has helped add efficiencies to the Group and reduced the layers of management.
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	The UK withdrew from the EU on 31 January 2020 and has entered a transition period until the end of 2020. Trade negotiations with the EU are planned for 2020 and whilst the outcome remains uncertain, there is always the associated risk of adverse implications for the business. Potential economic uncertainty could lead to a reduction in orders in the short to medium term, impacting adversely on the Group's results. It may impact 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.
Reliance on core 3rd party systems and integrations	The Group's solutions will utilise or integrate to a number of 3rd party products and services. In some cases these are integral to core functions. Should these integrations cease to be available at short notice it would have an adverse impact for our clients who may seek alternative solutions.	In many cases there are alternative suppliers of similar functions available that could be switched to with the appropriate development debt. There are some however where this is not possible and no readily available alternatives exist. Our contracts make clear where our responsibility ends and 3rd party function begins protecting us from contractual recourse.
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.

Risk	Potential adverse impact	Mitigation
Covid-19 including going concern	The worldwide spread of the Covid-19 virus and subsequent impacts on people and businesses around the World creates unique risks for all businesses. The Group needs sufficient cash to ensure it can continue to invest in its products in the coming years.	The Group is actively monitoring the impact of Covid-19 on its business and has put in place a number of mitigations to minimise the impact. The Group has spent considerable time assessing the potential impacts that Covid-19 could have on our operations. This assessment has taken in to account the current measures being put in place by the Group to preserve cash and reduce discretionary expenditure, and potential reductions in revenues resulting from the economic impact on customers due to lockdown and an expected economic downturn. The Group obtained a loan of £1.5m through the Government Business interruption scheme in June 2020.

FINANCIAL REVIEW

For the year ended 31 December 2019

Total revenues decreased by 8% to £8.027m (2018: £8.692m) with recurring revenues decreasing by 8% to £6.593m (2018: £7.154m) while non-recurring revenues decreased by 1% to £1.160m (2018: £1.169m). Third party resell revenue amounted to £0.274m in the period (2018: £0.369m).

Cost of sales decreased to £0.849m (2018: £1.054m). Administrative costs, excluding acquisition related items, reorganisation and other costs, depreciation and amortisation, fell 7% to £5.896m (2018: £6.337m) as measures were taken to reduce the cost base. Depreciation and amortisation (excluding acquisition related amortisation) increased to £1.489m (2018: £1.246m).

Acquisition related and reorganisations and other costs totalled £0.883m (2018: £0.469m) and were in respect of:

- the amortisation of intangibles arising on the Voyager, FCP and ISV acquisitions £0.305m (2018: £0.469m).
- reorganisation and other costs totalled £0.578m (2018: £nil).

Recurring revenues covered 89% of administrative expenses before acquisition related and reorganisation and other costs (2018: 94%). Excluding depreciation and amortisation of our own internal development, the administrative costs (before acquisition related and reorganisation and other costs) are covered 112% (2018: 112%) by recurring revenues.

The Group benefitted from an income tax credit in 2019 of £0.339m (2018: credit £0.191m). The 2019 credit reflects the 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 reflects a prior year adjustment of a credit of £0.140m as the tax computations in respect of prior years were finalised and agreed. The acquisition related items tax credit of £0.058m (2018: £0.089m) 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 reorganisation and other costs amounted to a loss of £0.030m (2018: profit £0.120m). The 2019 adjusted profits benefitted from tax income of £0.268m (2018: tax income of £0.102m). The statutory loss for the year after acquisition related items and reorganisation and other costs was £0.842m (2018: loss £0.260m). Basic loss per share (EPS) fell to (4.28) p (2018: (1.32)p). Fully diluted EPS fell to (4.28)p (2018: (1.32)p). Adjusted basic EPS fell to (0.15)p (2018: 0.61p).

Dillistone Group Plc company results show a loss of £1.843m (2018: profit £1.338m) after a write-off of the intercompany loan with GatedTalent of £1.450m which was necessary to facilitate the reorganisation of the Group.

Capital expenditure

The Group invested £1.100m in property, plant and equipment and product development during the year (2018: £1.536m). This expenditure included £1.067m (2018: £1.446m) spent on capitalised development related costs.

Trade and other payables

As with previous years, the trade and other payables includes deferred income of £2.873m (2018: £3.575m), i.e. income which has been billed in advance but is not recognised as income at that time. This principally relates to support, SaaS, cloud hosting renewals and other subscriptions, which are billed in 2019 but are in respect of services to be delivered in 2020. 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”.

The Group implemented IFRS 16 during the year. The result is to recognise right to use assets on the balance sheet of £0.754m as at the year end and the corresponding lease liabilities which totalled £0.823m. See Note 23 for more detailed analysis.

Cash and debt

The Group finished the year with cash funds of £0.402m (2018: £0.725m) made up of positive (£0.690m) and negative (£0.288m) current account balances which can be netted off under the banking facility.

The Group obtained a loan of £0.5m in June 2019 of which £0.126m was repaid in the year leaving £0.374m (2018: £nil) repayable at the year end. It also had a convertible loan of £0.412m (2018: £0.404m). It was agreed in the year that the convertible loan notes would not be repaid until the bank loan was repaid.

On behalf of the Board

Julie Pomeroy
Finance Director

29 July 2020

The Strategic Report is signed on behalf of the Board by

Jason Starr
Chief Executive

29 July 2020

CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2019

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 has been 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. The strategy has been modified in response to the Covid-19 pandemic. 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 9 to 11.

Until the end of 2019, the business was 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.

In 2019 the group carried out a major reorganisation with the UK activities all being under one company and similarly the operations in Australia have been merged. The business now trades under the Ikiru People name and the divisional structure no longer exists.

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.

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 management 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. Regular staff meetings are held to update staff on current matters. With around 100 people, it means that Directors and management staff are relatively accessible to all 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 2019
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 9 to 11. We do not have a formal risk committee.

Our internal governance and reporting structure, for example through monthly management 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 management 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 23 to 25 or on our website.

Non-Executive Directors		
G R Fearnley	Non-executive Chairman from 1 January 2020	Independent - 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 1 day per month.
M D Love	Non-executive director (chairman until 31 December 2019)	Independent – although Dr Love has served on the Board for over 10 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 ½ day per month.
Executive Directors		
J S Starr	Chief Executive	Full time
A D James	Chief Product Officer	Full time
J P Pomeroy	Finance director	Part time – 4 days per week
R Howard	Operations director resigned 31 December 2019	Part time – 3 days per week
A Milne	Managing Director – Dillistone Systems Division resigned 31 December 2019	Full time
P Mather	Chief Operations Officer from 2 January 2020	Full time
S Warburton	Chief Technology Officer from 2 January 2020	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 for 2019 is set out below.

Name	Number of meetings held	Number of meetings attended
M D Love	9	9
G R Fearnley	9	7
J S Starr	9	9
A D James	9	9
J P Pomeroy	9	9
R Howard	9	8
A Milne	9	9

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 and Giles Fearnley 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 principal 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 2019.

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 to members of the Board. During 2019, Divisional management accounts were 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 23 to 25 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. 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 considered as part of the Board appraisal process.

CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2019
Continued

Board member	Role	Experience
Giles Fearnley	Chairman	Giles has significant experience leading a large business in the passenger transport sector. He brings real commercial judgement to Dillistone through his knowledge of working in challenging sectors.
Mike Love	Independent Director	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 and Chairman from 2004 to 2019. In 2019 he oversaw the sale of SciSys to CGI. He was also chairman of a private company Redcliffe Precision Ltd recently merged with Avon Valley Precision Engineering Ltd. He has a good understanding of software development projects and he brings strong independent judgement to Dillistone.
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.
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 was also a non-executive director of Nottingham University Hospitals NHS Trust until January 2020.
Rory Howard	Operations Director – resigned 31 December 2019	Rory has a background as a technical and database analyst as well as being an experienced project manager and a PRINCE2 practitioner.
Alistair Milne	Managing Director – Dillistone Systems Division – resigned 31 December 2019	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.
Paul Mather	Chief Operations Officer from 2 January 2020	Paul has a strong background in operations and had been the Voyager division Operations Director since 2003.
Simon Warbuton	Chief Technology Officer from 2 January 2020	Simon has a strong technology background and joined the Voyager business in 1997 and was managing director at the time it was acquired by Dillistone Group in 2011.

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.

Directors' performance was reviewed formally by the Chairman during 2019.

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 considered 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
Giles Fearnley	Chairman	Leads the Board
Mike Love	Independent Director	NED
Jason Starr	CEO	Managing the Group's businesses
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.
Rory Howard	Operations Director – resigned 31 December 2019	Responsible for operations at Dillistone Division including commercial contracts and insurance until the completion of the restructuring. He is also Group DPO.
Alistair Milne	Managing Director – Dillistone Systems Division – resigned 31 December 2019	Responsible for the performance of Dillistone Division until the completion of the restructuring.

CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2019
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.

During 2019 the 3 divisions operated 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 were attended by the Chief Executive Officer, and reported back into the Board meetings. Divisional boards normally meet monthly.

A separate Information Security committee exists 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 make themselves available to speak to potential institutional shareholders. These meetings and discussions give the Board an opportunity to gauge shareholder feedback and expectations. The Chairman is also available to shareholders if they request a meeting.

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 20 to 22 and the audit committee report in on page 19.

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.

Regular staff meetings are held to keep employees 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.

AUDIT COMMITTEE REPORT

For the year ended 31 December 2019

I am pleased to present the report on behalf of the Audit Committee.

The Committee is responsible for challenging the quality of internal controls and for ensuring that the financial performance of the Group is properly reported and reviewed. The Board considers that the Company is not currently of the size to warrant the need for an internal audit function although the Board has put in place internal financial procedures to ensure close internal controls.

Committee Composition

The members of the Audit Committee are myself Giles Fearnley, as Chair and Dr Mike Love. We are both independent Non-Executive Directors. The Board is of the view that we have recent and relevant experience. In 2019 two meetings were held attended by both committee members. The Chief Executive Officer, the Finance Director and the Group's auditors attend by invitation. I report to the Board following an Audit Committee meeting and minutes are available to the Board.

Committee Duties

The main duties of the Committee are set out in its terms of reference, which are available on the Company's website. In this period the main items of business included:

- recommending the external auditor's remuneration and terms of engagement;
- reviewing a wide range of financial matters including the annual and half year results, financial statements and accompanying reports;
- monitoring the controls which ensure the integrity of the financial information reported to the shareholders.

Financial reporting

The Committee reviews reports provided by the external auditor on the annual results which highlight any observation from the work they have undertaken. In the financial year commencing 1 January 2019 the Group applied one new accounting standard.

IFRS 16 Leases

IFRS 16 is effective for periods beginning on or after 1 January 2019. The Group has elected to adopt IFRS 16 retrospectively with the cumulative effect of applying IFRS 16 recognized at the date of initial application 1 January 2019. Consequently the comparative period has not been restated. See note 23 for further details.

The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Group.

External Auditor

The Committee considers that its relationship with the auditor is working well and is satisfied with their effectiveness.

The Committee is responsible for ensuring there is a suitable policy for ensuring that non-audit work undertaken by the auditor is reviewed to ensure it will not impact their independence and objectivity. The breakdown of fees between audit and non-audit services is provided in note 6 on page 57 of the Group's financial statements. The non audit fees primarily relate to Group taxation compliance.

As necessary the Committee held private meetings with the auditor to review key items in its responsibilities. Taking into account the auditor's knowledge of the Group and experience, the Committee has recommended to the Board that the auditor is re-appointed for the period ending 31 December 2020.

Giles Fearnley
Chair of the Audit Committee
29 July 2020

REPORT TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION

For the year ended 31 December 2019

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 2019 financial year is £nil (2018: £nil) 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 24 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	Compensation payment** £'000	Pension payments*** £'000	Benefits £'000	2019 £'000	2018 £'000
Executive Directors						
J S Starr	124	-	8	1	134	133
R Howard	46	42	33	1	122	80
A D James	96	-	11	-	107	107
J P Pomeroy	91	-	12	1	104	104
A Milne	88	50	10	-	148	106
Non-Executive Directors						
M D Love	35	-	-	-	35	35
G R Fearnley	13	-	-	-	13	13
	493	**92**	**75**	**3**	**663**	**578**

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

** Compensation payment includes PILON, compensation for loss of office, accrued holiday pay and associated Pension contributions. Payments were made in 2020.

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

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

LTIP award – % of salary arrangement

	Maximum payout awarded in period £'000	Paid in the year including Employer's NI £'000	Total value of salary based LTIP awards carried at 31 December 2019* £'000	Total value of all salary based LTIP awards carried at 31 December 2018* £'000
J S Starr	-	-	2	1
R Howard	-	-	2	1
	-	-	**4**	**2**

* 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 2019	Total number of options granted under LTIP scheme at 31 December 2018
J Starr	20,000	20,000	-
A D James	20,000	190,000	264,471
J P Pomeroy	20,000	190,000	264,063
A Milne	-	170,000	264,471
Total	**60,000**	**570,000**	**793,005**

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 2019	At 31 December 2018
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

REPORT TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION

For the year ended 31 December 2019
Continued

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 2019	At 31 December 2018
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

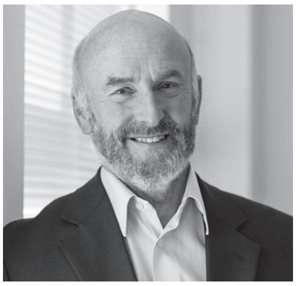
The Loan Notes carry an interest coupon of 8.15% pa over their maximum term of 36 months, with a conversion price of 71.6p per new Dillistone ordinary share. The interest payments are payable quarterly in arrears and will be satisfied through the issue of further new ordinary shares or in cash at the 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 2019	At 31 December 2018
J S Starr	20,000	-
A D James	190,000	264,471
J P Pomeroy	201,523	275,586
A Milne	174,627	269,098
	586,150	**809,155**

BOARD OF DIRECTORS

For the year ended 31 December 2019



MIKE LOVE
71
NON-EXECUTIVE DIRECTOR (CHAIRMAN UNTIL 31 DECEMBER 2019)

Mike Love has a PhD in Theoretical Physics and over 40 years' experience in the software industry. He was non-executive chairman of SciSys plc, also an AIM quoted company, and was 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
48
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 was appointed a non-executive director of AIM listed PCIPAL PLC from 1 January 2015.

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

RORY HOWARD
52
OPERATIONS DIRECTOR (RESIGNED 31 DECEMBER 2019)

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
47
CHIEF PRODUCT OFFICER

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.

BOARD OF DIRECTORS

For the year ended 31 December 2019
Continued

ALISTAIR MILNE
44
MANAGING DIRECTOR – DILLISTONE SYSTEMS DIVISION (RESIGNED 31 DECEMBER 2019)

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
64
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
65
NON-EXECUTIVE DIRECTOR, CHAIRMAN FROM 1 JANUARY 2020

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.

PAUL MATHER
44
CHIEF OPERATIONS DIRECTOR (APPOINTED 2 JANUARY 2020)

Paul has been employed in the group since 1999 after graduating with an honours degree in Physics from the University of Surrey. Paul joined in a 2nd line support role with Voyager Software Ltd before taking over the support function in 2000. In 2001 he became Customer Services Director before taking over as Operations Director in 2003. After selling Voyager to Dillistone Group in 2011 Paul was part of the due diligence teams for the subsequent Group acquisitions and is now responsible for Group operations globally.

SIMON WARBURTON
43
CHIEF TECHNOLOGY OFFICER (APPOINTED 2 JANUARY 2020)

Simon graduated with an honours degree in Computer Science from the University of Leeds and following a brief stint with an IT recruitment business, joined Voyager Software's technical team in 1997. In the following years, Simon held various roles in the business in both the technical and sales arenas before becoming Managing Director in 2002, where he remained until Voyager Software's acquisition by Dillistone Group in 2011. Post-acquisition, Simon continued in the role of Managing Director for the contingent recruitment division of the Group, which included the acquisition of two further businesses in 2013 and 2014. Simon's responsibilities also included the Group's IT infrastructure before being formally appointed as CTO in January 2020. Simon continues to be responsible for the Group's IT infrastructure alongside his other responsibilities in the sales, marketing and account management operations.

DIRECTORS' REPORT
For the year ended 31 December 2019

The Directors present their report and financial statements for the year ended 31 December 2019.

Results and dividends

The consolidated statement of comprehensive income for the year is set out on page 37.

No final dividend will be paid (2018: nil).

Directors

The following Directors have held office since 1 January 2019:

M D Love – Non-Executive Chairman until 31 December 2019, subsequently Non-Executive Director,
J S Starr
R Howard resigned 31 December 2019
A D James
J P Pomeroy
G R Fearnley – Non-Executive Director and became Chairman on 1 January 2020
A Milne resigned 31 January 2019
P Mather appointed 2 January 2020
S Warburton appointed 2 January 2020

The interests of the Directors (including family interests) in the share capital of the Company are listed on pages 21 and 22.

Jason Starr is proposed for re-election at the forthcoming AGM. Jason has a service contract with a one year notice period. Mike Love and Giles Fearnley have been Non-Executive Directors for over nine years and therefore will offer themselves for re-election annually. As Paul Mather and Simon Warburton have been appointed since the last AGM they are also required to stand for re-election.

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. In view of the Covid-19 pandemic there has been some change in focus to ensure the business successfully navigates the crisis and emerges in a strong position with products that meet the needs of clients. This is outlined in the Chairman's Statement and the Strategic Report

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 12. 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 uncertainty as to the future impact on the Group of the recent Covid-19 outbreak has been considered as part of the Group's adoption of the going concern basis. The Group has seen many of its clients shrink and with some clients closing. It has additionally supported many clients through agreeing discounted periods and deferred terms. Accordingly, the Group will see a reduction in revenue in 2020. However, the Group has acted quickly, taking advantage of various government schemes, including furloughing, and staff unanimously supporting a temporary pay-cut, including all executive and non-executive directors. The Group also agreed a 6 month payment holiday on its existing bank loan. The Company has also secured a loan of £1.5m under the UK Government's Business Interruption Loan (CBIL) scheme.

The Board has considered various downside scenarios on the Group's results as a result of the Covid-19 outbreak. In preparing this analysis the following assumptions were made for the base case: a reduction in recurring revenue and non recurring revenue in 2020 with some recovery in the second half of 2020 but with revenue not returning to full pre Covid-19 levels in 2020 or 2021. This base case took £0.5m off 2020 revenue. A further scenario was modelled ("stress test scenario") that took a further £0.5m off revenue with a deeper long term impact on the business.

If revenue were to fall in line with the stress test model, the Company would take further remedial action to counter the reduction in profit and cash through a cost cutting exercise that would include staff redundancies and general cost control measures. On this basis, the Group's cash reserves would be reduced to £nil in May 2021 though it would still have access to its bank overdraft of £0.2m.

Based on current trading, the stress test scenario is considered unlikely. However, it is difficult to predict the overall impact and outcome of Covid-19 at this stage, particularly if there was a second wave towards the end of 2020. Nevertheless, after making enquiries, and considering the uncertainties described above and after receiving a CBIL loan of £1.5m, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

Subsequent events

Like most businesses worldwide the Group is having to deal with the impact of Covid-19, with its primary concern being for the safety and wellbeing of its staff and their families. The Group has seen many of its clients shrink and with some clients closing. We have additionally supported many clients through agreeing discounted periods and deferred terms. Accordingly, we will see a reduction in revenue in 2020. However, the Group has acted quickly, taking advantage of various government schemes, including furloughing, and staff unanimously supporting a temporary pay-cut, including all executive and non-executive directors. Currently it is not possible to give a reasonable estimate of the impact on the results for 2020.

In June 2020, the Company secured a loan of £1.5m under the UK Government's Business Interruption Loan (CBIL) scheme. The Loan is repayable over 6 years with capital repayments commencing in July 2021. Interest is payable at 3.99% over base with the UK Government effectively paying the first 12 months interest under the CBIL scheme.

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.

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 23 September 2020 at 10:30am. 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' REPORT

For the year ended 31 December 2019
Continued

Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading on the Alternative Investment Market. The Directors have elected under company law to prepare the Group and Company's financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Group and Company for that period.

In preparing the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs adopted by the EU;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the 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 July 2020

INDEPENDENT AUDITOR'S REPORT

to the members of Dillistone Group Plc
For the year ended 31 December 2019

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 2019 which comprise 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 1 December 2019 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 and the Parent Company 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 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.

INDEPENDENT AUDITOR'S REPORT

to the members of Dillistone Group Plc
For the year ended 31 December 2019
Continued

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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	As described in note 1.12 of the consolidated financial statements, the group capitalises costs incurred on product development relating to the design and development of new or enhanced products. Capitalised development costs are disclosed in Note 13 of the consolidated financial statements. Details of the products concerned are given in the "Dillistone Group at a Glance" section of the annual report on pages 2-3. The Directors apply judgement in the classification of expenditure as capital in nature rather than ongoing operational expenditure. The significant judgements and related risk are that: • Internal costs are capitalised that should be expensed under the requirements of IAS 38 "Intangible Assets"; 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.	Our audit procedures involved: • Assessing the nature of the sampled items capitalised and evaluated the appropriateness of their classification as capitalised costs, having regard to IAS 38 requirements. This included assessing whether major projects are technically feasible and commercially viable. • 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 to validate that costs capitalised met the IAS 38 recognition and measurement criteria. • Making enquires of "Heads of Development" to determine the availability of technical competence to complete the development whether through contractor costs or internally available resources. • For a sample of capitalised payroll costs reviewed employment contracts and timecards to verify that only development related costs have been capitalised. • Considering the appropriateness of the disclosures provided in Note 13. *Key observations* Based on procedures performed, we consider that the costs capitalised by management were in line with the requirements of IAS 38.

<table>
<tr><th>Key audit matter</th><th>Description of key audit matter</th><th>Our response</th></tr>
<tr><td>Revenue recognition</td><td> The group's revenue recognition policy can be found in note 1.4 to the financial statements. We consider the key risk of material misstatement to arise from the recognition 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. Further, the offering of bonus schemes and incentive plans; as well as Revenue being a key KPI for shareholder decision making; increases the risk that the sales may be overstated. We consider the compliance of Group's revenue recognition policy in accordance with IFRS 15 (Revenue from Contracts with Customers) to be a key risk. Because of the above, we have deemed revenue recognition to be a key audit matter. </td><td> We tested that the Group's revenue recognition policy is compliant with IFRS 15 'Revenue from Contracts with Customers' by reviewing a selection of contracts, tracing the satisfaction of performance obligations to supporting documentation, such as licence keys, cash receipts and revenue postings into the income statement. We performed testing over all material revenue streams, including: Applied predictive analytical testing procedures for contract revenue earned during the year and investigated all movements that were not consistent with independent expectations set. Inputs used to set those expectations have been tested by agreeing them to related supporting documentation on a sample basis.
For 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.
Agreeing a sample of revenue items posted either side of year end to contracts to check that revenue has been recognised in the appropriate period. We also considered the adequacy of the Group's disclosures relating to revenue recognition in notes 1.4 and 3. Key observations
Based on the work performed we consider that revenue has been recognised appropriately during the year, and is in accordance with the Group's revenue recognition policy and accounting standards. </td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT

to the members of Dillistone Group Plc
For the year ended 31 December 2019
Continued

Key audit matter	Description of key audit matter	Our response
Impairment of Goodwill and Intangible Assets	The group's policy regarding impairment of goodwill and intangible assets can be found in note 1.10 to the financial statements. During the current period, the group continued to experience lower sales and profits which are indicators of impairment. Determining if an impairment charge is required for goodwill and other intangible assets involves significant judgements about the future performance and cash flows of the business, including forecast growth in future revenues and operating profit margins, as well as determining an appropriate discount factor and long term growth rate. Details of these are given in Note 12 and 13. We therefore focused on these areas and the judgements applied to future forecasts.	Our audit procedures involved: • Obtained the cash flow forecasts and impairment assessments including the discounted cash flow analysis from management. • With assistance from a BDO valuation specialist, we performed audit procedures on the reasonableness of the growth rates, margin and discount rate applied including comparison to economic and industry forecasts where appropriate. • Based on external evidence such as published outlook statements, and cumulative audit knowledge over the prior year cash flow movements, we performed sensitivity testing on the assumptions used in the impairment assessment. • Compared the discounted cash flow forecasts used to historical results and actual post year end results. • Considered the appropriateness of the disclosures included in Note 12 and 13. *Key observations* Based on procedures performed consider that management's judgements and disclosures in considering the impairment of good will and intangible assets were appropriate.

Key audit matter	Description of key audit matter	Our response
Going concern assessment	Note 1.2 of the financial statements explain how the Directors have formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group financial statements. That judgement is based on an evaluation of the inherent risks to the Group's business model and how those risks might affect the Group's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The Group's ability to continue as a going concern has been subject to increased audit scrutiny in line of the anticipated financial impact of COVID-19 and its potential impact on the markets as a whole, and the Group specifically. The Directors have considered the impact of COVID-19 and sensitised their forecasts accordingly. Due to the high level of judgement involved in the assessment we considered going concern to be a key audit matter.	Our audit procedures involved: • Discussing with management their assessment of the Group's ability to continue as a going concern. • Critically evaluating the revenue and cost projections underlying the model with reference to market information as well as past performance of the Group. • Analysing the projected cash flow and working capital assumptions to understand those assumptions used in the Group forecasts, through robust interrogation of the forecasts and understanding how these were derived; • Assessing the impact of COVID-19 on the cash-flow projections as well as the assumptions and sensitivities relating to this, through robust interrogation of the forecasts and understanding how these were derived. • Reviewing the outcome of mitigating actions already undertaken by directors to manage and conserve cash, as these were key assumptions included in the COVID-19 adjusted cash flow forecast. • Performing analysis of changes in key assumptions including a reasonable possible (but not unrealistic) reduction in forecast revenue to understand the sensitivity in the cash flow forecasts. • Reviewing management's disclosures in relation to the COVID-19 pandemic and its potential impact and to check that these are consistent with management's stress test scenario and the Board's view of the current market conditions. • Reviewing the terms of the £1.5m CBIL loan received post year end, and the existing financing within the group, focusing on the covenant requirements per the agreements, to check that the Group could remain compliant for the next 12 months, when considering the stress test model prepared. *Key observations* Our observations in respect of going concern are set out in the 'Conclusions relating to going concern' section above.

INDEPENDENT AUDITOR'S REPORT

to the members of Dillistone Group Plc
For the year ended 31 December 2019
Continued

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 them all individual audit differences identified during the course of our audit in excess of £6,450 (2017: £7,150). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

Overall group materiality	£120,400 (2018: £131,000)
Group performance materiality (75% of Overall materiality)	£90,300 (2018: £97,500)
Basis for determining (Group and Parent)	Group: 1.50% of total group revenue (2018: 1.50%) Parent: 1.50% of total revenue (2018: 1.5%)
Rationale for benchmark applied	Revenue is the group's main KPI, and therefore we considered this financial measure to be the most relevant to the users of the financial statements in assessing the performance of the Group and Parent.
Parent company materiality	£89,000 (2018: £121,000)
Parent company performance materiality (75% of Overall materiality)	£66,750 (2018: £90,750)

Performance materiality was set at 75% (2018 – 75%) of the above materiality figures. This is based on our risk assessment, together with our assessment of the Group's overall control environment.

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	4% to 74% (2018: 3% to 93%) of group materiality

An overview of the scope of our audit

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

In determining the scope of our audit we considered the level of work to be performed at each component in order to ensure sufficient assurance was gained to allow us to express an opinion on the financial statements of the Group as a whole. We tailored the extent of the work to be performed at each component, based on our assessment of the risk of material misstatement at each component. We identified four centrally controlled components as significant, and have audited these for group reporting purposes. Dillistone Systems Group Plc (the Parent Company) was subject to a full scope audit performed by BDO LLP.

The group audit team centrally performed the audit of 100% (2018: 82%) of group revenue and 95% (2018: 95%) of total assets using the materiality levels set out above.

For two of the components not considered significant, a BDO member firm performed specific scope procedures, on instruction from BDO LLP, based on their relative size, risks in the business and our knowledge of those entities appropriate to respond to the risk of material misstatement. This work was subjected to review by BDO LLP. Review and specific scope procedures were performed by the group audit team on the remaining five reporting components not considered significant to the group.

Other information

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

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 28, 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.

INDEPENDENT AUDITOR'S REPORT

to the members of Dillistone Group Plc
For the year ended 31 December 2019
Continued

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 Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Butcher
For and on behalf of BDO LLP, Statutory Auditor
London, UK

29 July 2020

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 2019

	Note	2019 £'000	2018 £'000
Revenue	3	8,027	8,692
Cost of sales		(849)	(1,054)
Gross profit		7,178	7,638
Administrative expenses		(8,268)	(8,052)
Operating loss	6	(1,090)	(414)
Adjusted operating (loss)/profit before acquisition related, reorganisation and other items	2	(207)	55
Acquisition related, reorganisation and other items	5	(883)	(469)
Operating (loss)		(1,090)	(414)
Financial income	8	-	1
Financial cost	8	(91)	(38)
Loss before tax		(1,181)	(451)
Tax income	9	339	191
(Loss) for the year		(842)	(260)
Other comprehensive income/(loss)			
Items that will be reclassified subsequently to profit and loss:			
Currency translation differences		(16)	(30)
Total comprehensive (loss) for the year		**(858)**	**(290)**
Earnings per share			
Basic	10	(4.28)p	(1.32)p
Diluted	10	(4.28)p	(1.32)p

The notes on pages 43 to 81 are an integral part of these consolidated and company financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	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 2018 Comprehensive income	983	1,631	365	2045	14	101	93	5,232
Loss for the year	-	-	-	(260)	-	-	-	(260)
Other comprehensive income								
Exchange differences on translation of overseas operations	-	-	-	-	-	-	(30)	(30)
Total comprehensive income	-	-	-	(260)	-	-	(30)	(290)
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	1,687	14	106	63	4,849
Comprehensive income								
Loss for the year ended 31 December 2019	-	-	-	(842)	-	-	-	(842)
Other comprehensive income/(loss)								
Exchange differences on translation of overseas operations	-	-	-	-	-	-	(16)	(16)
Total comprehensive income	-	-	-	(842)	-	-	(16)	(858)
Transactions with owners								
Share option charges	-	-	-	26	-	(12)	-	14
	-	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	26	-	(12)	-	14
Balance at 31 December 2019	**983**	**1,631**	**365**	**871**	**14**	**94**	**47**	**4,005**

The notes on pages 43 to 81 are an integral part of these consolidated and company financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	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 2018	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
Comprehensive income							
Total comprehensive loss for the year ended 31 December 2019	-	-	-	-	(1,843)	-	(1,843)
Transactions with owners							
Share option charge	-	-	-	-	25	(12)	13
Total transactions with owners	-	-	-	-	25	(12)	13
Balance at 31 December 2019	**983**	**1,631**	**365**	**14**	**2,011**	**94**	**5,098**

The notes on pages 43 to 81 are an integral part of these consolidated and company financial statements.

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

As at 31 December 2019

		Group		Company	
	Note	2019 £'000	2018 £'000	2019 £'000	2018 £'000
ASSETS					
Non-current assets					
Goodwill	12	3,415	3,415	-	-
Other intangible assets	13	4,234	4,754	-	-
Property, plant and equipment	14	54	113	-	-
Right to use assets	15	754			
Investments	16	-	-	7,168	7,151
Total non-current assets		8,457	8,282	7,168	7,151
Current assets					
Inventories	17	-	3	-	-
Trade and other receivables	18	1,222	1,522	928	1,289
Current tax receivable		293	270	-	-
Cash and cash equivalents	20	690	725	-	-
Total current assets		2,205	2,520	928	1,289
Total assets		10,662	10,802	8,096	8,440
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	22	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		871	1,687	2,011	3,829
Share option reserve	24	94	106	94	106
Translation reserve		47	63	-	-
Total equity		4,005	4,849	5,098	6,928
Liabilities					
Non-current liabilities					
Trade and other payables	19	443	690	-	2
Lease liabilities	23	741	-	-	-
Borrowings	21	523	390	523	390
Deferred tax liability	9	340	489	-	-
Total non-current liabilities		2,047	1,569	523	392
Current liabilities					
Trade and other payables	19	3,977	4,370	1,924	1,091
Lease liabilities	23	82	-	-	-
Borrowings	21	551	14	551	29
Total current liabilities		4,610	4,384	2,475	1,120
Total liabilities		6,657	5,953	2,998	1,512
Total liabilities and equity		**10,662**	**10,802**	**8,096**	**8,440**

The loss for the financial year for the parent Company was £(1,843,000) (2018: profit £1,338,000).

The notes on pages 43 to 81 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 July 2020. They were signed on its behalf by
J P Pomeroy – Director
Company Registration No. 4578125

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2019

	For the year ended 31 December 2019 £'000	For the year ended 31 December 2019 £'000	For the year ended 31 December 2018 £'000	For the year ended 31 December 2018 £'000
Operating activities				
(Loss) before tax	(1,181)		(451)	
Adjustment for:				
Financial income	-		(1)	
Financial cost	91		38	
Depreciation and amortisation	1,794		1,714	
Share option expense	14		5	
Foreign exchange adjustments arising from operations	(33)		70	
Operating cash flows before	685		1,375	
movement in working capital:				
Decrease in receivables	282		171	
Decrease in inventories	3		-	
Decrease in payables	(603)		(471)	
Taxation refunded	167		65	
Net cash generated from operating activities		534		1,140
Investing activities				
Interest received	-		1	
Purchases of property, plant and equipment	(29)		(55)	
Sale of Fixed assets	2			
Investment in development costs	(1,070)		(1,481)	
Contingent and deferred consideration paid	-		(146)	
Net cash used in investing activities		(1,097)		(1,681)
Financing activities				
Interest paid	(83)		(33)	
Proceeds from bank loan	500		-	
Bank loan repayments made	(126)		-	
Lease payments made	(49)		-	
Utilisation of banking facility	288		-	
Dividends paid	-		(98)	
Net cash generated from/(used in) financing activities		530		(131)
Net decrease in cash and cash equivalents		(33)		(672)
Cash and cash equivalents at beginning of year		725		1,390
Effect of foreign exchange rate changes		(2)		7
Cash and cash equivalents at end of year		690		725

The notes on pages 43 to 81 are an integral part of these consolidated and company financial statements.

COMPANY CASH FLOW STATEMENT

For the year ended 31 December 2019

	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Operating activities				
(Loss)/Profit before tax	(1,843)		1,338	
Adjustment for:				
Financial cost	55		37	
Impairment	-		451	
Share option expense	15		5	
Operating cash flows before movements in working capital	(1,773)		1,831	
Decrease/(Increase) in receivables	361		(355)	
Increase/(Decrease) in payables	829		(1,313)	
Net cash generated from operating activities		(583)		163
Investing activities				
Acquisition of subsidiaries	(18)		-	
Contingent consideration paid	-		(146)	
Net cash used in investing activities		(18)		(146)
Financing activities				
Proceeds from bank loan	500		-	
Financial cost	(46)		(33)	
Bank loan repayments made	(126)		-	
Utilisation of banking facility	288		-	
Dividends paid	-		(98)	
Net cash used in financing activities		616		(131)
Net increase/(decrease) in cash and cash equivalents		15		(114)
Cash and cash equivalents at beginning of year		(15)		99
Cash and cash equivalents at end of year		-		(15)

The notes on pages 43 to 81 are an integral part of these consolidated and company financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 12 Cedarwood, Chineham Business Park, Basingstoke, RG24 8WD.

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. 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.

- Alternative accounting judgement could have been applied – this could be a longer or shorter period for the life of the contract.
- Effect of that alternative accounting judgement – change in revenue figure and deferred income by the same amount.

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.

- Alternative accounting judgement that could have been applied – not capitalising development costs.
- Effect of that alternative accounting judgement – reduction of £3,055,000 of assets' carrying value.

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 16.

- Alternative accounting judgement that could have been applied – impair goodwill, other intangible assets and investments.
- Effect of that alternative accounting judgement – details of sensitivities to estimates are shown in accounts notes 12 and 16

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019
Continued

Valuation of assets and liabilities
Management has made a number of assumptions with regards to the models used to value assets and liabilities at the statement of financial position date. Valuation techniques commonly used by market practitioners are applied. In 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 18.

- Alternative accounting judgement that could have been applied – increase or decrease the expected loss rate
- Effect of that alternative accounting judgement – The current level of Loss allowance provision is £82,000 on gross debtors of £1,082,000. An increase in the loss rate would increase the Loss allowance provision and decrease the net carrying value of the trade receivables

Leases - Incremental borrowing rate
Management have concluded that the interest rate implicit in the leases cannot be readily determined therefore the leases held have been discounted by the incremental borrowing rate (IBR), being the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain assets of a similar value to the right of use assets in a similar economic environment. To determine the IBR, management considered its existing borrowing obligations and concluded that 5% was an appropriate rate.

- Alternative accounting judgement that could have been applied – increase or decrease the incremental borrowing rate
- A 1% increase in the incremental borrowing rate would reduce the closing asset value by £0.032m and also reduce the closing lease liability by £0.026m.

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:

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.

Determining whether a contract or part of a contract contains a lease
IFRS 16 sets out the criteria to establish whether a contract or part thereof contains a lease. The Group exercises judgement in applying these criteria, by considering the following:

- Is there an identified asset that the Group has the right to use? Such an asset must be explicitly or implicitly identified in the contract, and if the lessor retains a substantive right of substitution from contract inception and throughout the period of use then no identified asset exists. Such substantive rights only exist if the lessor has the practical ability to substitute the asset and an economic benefit would accrue to them from substitution.
- Does the Group have the right to obtain substantially all the economic benefits of use of the underlying asset? Economic benefits may arise directly or indirectly. Contract terms may mean that the Group's access to all the economic benefits of use of the asset are limited, for example by only allowing its use under certain conditions or at certain times.

- Does the Group have the right to direct the use of the identified asset? This means that the Group must be able to decide how and for what purpose the asset is used throughout the period of use.

Determining lease terms
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The following factors are typically considered:

- If there are significant penalties to terminate (or not extend), the group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the group is typically reasonably certain to extend (or not terminate).
- Otherwise, the group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

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 12. 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 uncertainty as to the future impact on the Group of the recent COVID-19 outbreak has been considered as part of the Group's adoption of the going concern basis. The Group has seen many of its clients shrink and with some clients closing. It has additionally supported many clients through agreeing discounted periods and deferred terms. Accordingly, the Group will see a reduction in revenue in 2020. However, the Group has acted quickly, taking advantage of various government schemes, including furloughing, and staff unanimously supporting a temporary pay-cut, including all executive and non-executive directors. The Group also agreed a 6 month payment holiday on its existing bank loan. The Company has also secured a loan of £1.5m under the UK Government's Business Interruption Loan (CBIL) scheme.

The Board has considered various downside scenarios on the Group's results as a result of the COVID-19 outbreak. In preparing this analysis the following assumptions were made for the base case: a reduction in recurring revenue and non recurring revenue in 2020 with some recovery in the second half of 2020 but with revenue not returning to full pre Covid-19 levels in 2020 or 2021. This base case took £0.5m off 2020 revenue. A further scenario was modelled ("stress test scenario") that took a further £0.5m off revenue with a deeper long term impact on the business.

If revenue were to fall in line with the stress test model, the Company would take further remedial action to counter the reduction in profit and cash through a cost cutting exercise that would include staff redundancies and general cost control measures. On this basis, the Group's cash reserves would be reduced to £nil in May 2021 though it would still have access to its bank overdraft of £0.2m.

Based on current trading, the stress test scenario is considered unlikely. However, it is difficult to predict the overall impact and outcome of COVID-19 at this stage, particularly if there was a second wave towards the end of 2020. Nevertheless, after making enquiries, and considering the uncertainties described above and after receiving a CBIL loan of £1.5m, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

1.3 Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of 31 December 2019. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019
Continued

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:
  - the Group having right to payment;
  - the customer having legal title to the asset;
  - the Group transferring physical possession of the asset to the customer, where relevant;
  - the customer having significant risks and rewards of ownership of the asset;
  - 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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019
Continued

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, reorganisation costs. See notes 2 and 5.

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
Right to use assets	Lease period
Office and computer equipment	3-5 years straight line
Fixtures, fittings and equipment	4-5 years straight line

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019
Continued

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;
- 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 2019, and as such, the appropriate model is the 12-month ECL model. The implications of this have been disclosed in note 18.

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

Prior to 1 January 2019, the Group accounted for its leasing contracts under IAS 17 Leases. This meant that leases taken by the Group were assessed individually as to whether they were finance leases or operating leases. Leases were classified as finance leases whenever the terms of the lease transferred substantially all the risks and rewards of ownership to the lessee. All other leases were classified as operating leases. Operating lease rental payments were recognised as an expense in the income statement on a straight-line basis over the lease term. The benefit of lease incentives was spread over the term of the lease.

From 1 January 2019, the Group accounts for its leasing contracts under IFRS 16 Leases. The Group has applied the modified retrospective approach on adoption of IFRS 16, with recognition of transitional adjustments on the date of initial application (being 1 January 2019) without restatement of comparative figures. The effect on the Group's primary financial statements of the adoption of IFRS 16 is set out in note 23.

Under IFRS 16 a lease is defined to be a contract or part of a contract that conveys a right to use an asset (the underlying asset) for a period of time in exchange for consideration. The Group reviews relevant contracts for such arrangements, using the judgements set out in note 1.1 to establish which contracts contain leases. The Group's most significant leases are those of its office space in the UK, US and Australia. These leases usually have a fixed period, some with an ability to extend at the option of the Group. The Group also leases some Computer Equipment on a fixed term basis. Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. The Group acts only as lessee, not as lessor.

On the transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019
Continued

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- the exercise price of a purchase option if the group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the Group's incremental borrowing rate, being the rate the Group would expect to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing as a starting point, adjusted to reflect changes in financing conditions since third party financing was received; and
- makes adjustments specific to the lease, eg term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

1.19 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less and which are subject to an insignificant risk of changes in value.

1.20 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.
- 'Foreign exchange reserve' represents translation differences arising on the consolidation of investments in overseas subsidiaries.

1.21 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.

1.22 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.

1.23 Defined contribution pension scheme

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

1.24 Accounting standards

The following new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2019 have had the following impact on the Group:

IFRS 16 Leases (IFRS 16)
IFRS 16 specifies how the Group will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. From 1 January 2019 the Group recognised an asset reflecting the right of use leased asset for the Company's two property leases and an equipment lease, and a lease liability reflecting the obligation to make lease payments. Both the asset and the liability have been recognised on the balance sheet where previously they were off balance sheet. There was no impact on cash flow but there was an impact on the Income Statement as the operating lease payment included within administrative expenses was replaced with a depreciation charge on the leased asset (included in administrative expenses) and an interest expense on the lease liability (included in financial cost). EBITDA also increased as both interest cost and depreciation charge are excluded from the calculation. Note 23 outlines the effect of IFRS 16 on the financial statements.

The Group has also adopted the following amendments to standards, which have had no material impact on the Group's results or financial statement disclosure: IFRIC 23 'Uncertainty over Income Tax Treatments'

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

Standard	Effective date
Conceptual Framework and Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 3 Business Combinations	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020
Interest Rate Benchmark Reform: amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020
IFRS 17 - Insurance Contracts	1 January 2020

The Directors are evaluating the impact that these standards will have on the financial statements of Group. It does not believe that the amendments to IAS 1 will have a significant impact on the classification of its liabilities, as the conversion feature in its convertible debt instruments is classified as an equity instrument and therefore, does not affect the classification of its convertible debt as a non-current liability.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019
Continued

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

	Note	Adjusted profits 2019 £'000	Acquisition related, reorganisation and other costs 2019* £'000	2019 £'000	Adjusted profits 2018 £'000	Acquisition related reorganisation and other costs 2018* £'000	2018 £'000
Revenue		8,027	-	8,027	8,692	-	8,692
Cost of sales		(849)	-	(849)	(1,054)	-	(1,054)
Gross profit		7,178	-	7,178	7,638	-	7,638
Administrative expenses		(7,385)	(883)	(8,268)	(7,583)	(469)	(8,052)
Operating profit/(loss)		(207)	(883)	(1,090)	55	(469)	(414)
Financial income		-	-	-	1	-	1
Financial cost		(91)	-	(91)	(38)	-	(38)
Profit/(loss) before tax		(298)	(883)	(1,181)	18	(469)	(451)
Tax income		268	71	339	102	89	191
Profit/(loss) for the year		(30)	(812)	(842)	120	(380)	(260)
Other comprehensive loss net of tax:							
Currency translation differences		(16)	-	(16)	(30)	-	(30)
Total comprehensive income/(loss) for the year net of tax		(46)	(812)	(858)	90	(380)	(290)
Earnings per share							
Basic	10	(0.15)p	-	(4.28)p	0.61p	-	(1.32)p
Diluted	10	(0.15)p	-	(4.28)p	0.61p	-	(1.32)p

* See note 5

3. Segment reporting

During the Year, the Board principally monitored 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 2019

	Dillistone £'000	Voyager £'000	GatedTalent £'000	Central £'000	Total £'000
Segment revenue	3,895	3,795	337	–	8,027
Segment EBITDA pre exceptional	1,021	691	(295)	(135)	1,282
Depreciation and amortisation expense	(747)	(553)	(189)	-	(1,489)
Segment result before reorganisation and other costs	274	138	(484)	(135)	(207)
Reorganisation and other costs	(180)	(172)	1,427	(1,653)	(578)
Segment result	94	(34)	943	(1,788)	(785)
Acquisition related amortisation	-	-	–	(305)	(305)
Operating profit/(loss)	94	(34)	943	(2,093)	(1,090)
Financial income	-	-	-	-	-
Loan interest/lease interest	(1)	(35)	-	(55)	(91)
Loss before tax					(1,181)
Income tax income					**339**
Loss for the year					**(842)**
Additions of non-current assets	**446**	**1283**	**191**	**-**	**1,920**

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**

As the business was reorganised into one trading CGU and central costs on 31 December 2019, it is not possible to allocate assets and liabilities to the divisional units as at that date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019
Continued

Products and services

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

Revenue

	2019 £'000	2018 £'000
Recurring income	6,593	7,154
Non-recurring income	1,160	1,169
Third party revenues	274	369
	8,027	**8,692**

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 2019 or 2018.

During the year, the Group streamlined its corporate structures and operations to achieve efficiencies across the business. This resulted in the five UK businesses being combined into one trading entity subsequently renamed Ikiru People Limited. A similar reorganisation has occurred in Australia combining our two companies into one and renamed as Ikiru People Pty Limited. These changes came into effect on 31 December 2019. The reorganisation has brought all of the businesses together into effectively one trading division with a focus more on the products we sell than on divisional structures. Accordingly, for 2020 onwards, the group will only report one trading segment.

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

	2019 £'000	2018 £'000
UK	5,700	6,188
Europe	928	1,007
US	1,034	1,118
Australia	365	379
	8,027	**8,692**

Non-current assets by geographical location

	2019 £'000	2018 £'000
UK	8,445	8,274
US	6	4
Australia	6	4
	8,457	**8,282**

5. Acquisition related and other one-off items

	2019 £'000	2018 £'000
Included within administrative expenses:		
Reorganisation and other costs	578	-
Amortisation of acquisition intangibles	305	469
	883	469
	883	**469**

Reorganisation and other costs include severance payments, loss of office payments, duplication running costs and lease terminations costs.

6. Operating loss

	2019 £'000	2018 £'000
Operating loss is stated after charging:		
Depreciation on property, plant and equipment	85	106
Depreciation on Right to use assets	118	-
Amortisation	1,591	1,608
Operating lease rentals – land and buildings	-	229
Expenses relating to short-term leases	104	-
Money purchase pension contributions	399	359
Fees receivable by the Group auditors:		
Audit of financial statements	56	30
Other services:		
Audit of accounts of subsidiaries of the Company	100	79
Taxation compliance services	22	22
Tax advisory services	-	6
Other services	2	-

7. Employees

The average number of employees was:

	2019 number	2018 number
Operations	99	108
Management	11	12
Total Employee numbers	**110**	**120**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019
Continued

Their aggregate remuneration including Directors' remuneration comprised:

	2019 £'000	2018 £'000
Wages and salaries	4,843	5,139
Social security costs	443	542
Pension costs	399	359
Share based payments	9	12
LTIP share based	5	(7)
LTIP non share based	2	(10)
	5,701	**6,035**

The aggregate remuneration includes salary cost totalling £1,021,000 (2018: £1,253,000) that has been capitalised in intangible assets.

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

	2019 £'000	2018 £'000
Wages and salaries	1,080	922
Social security costs	125	115
Pension costs	107	100
Share based payments charged	1	2
LTIP share based	5	(7)
LTIP non share based	2	(10)
	1,320	**1,122**

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

8. Financial income and cost

	2019 £'000	2018 £'000
Interest receivable	-	1
Finance cost on bank overdraft	(4)	(1)
Finance cost on bank loan	(12)	-
Finance cost on convertible loan	(33)	(33)
Finance cost on lease liabilities	(37)	-
Unwinding of discount on convertible loan	(5)	(4)
	(91)	**(37)**

9. Tax income

	2019 £'000	2018 £'000
Current tax	(50)	(165)
Prior year adjustment – current tax	(140)	(7)
Total current tax	(190)	(172)
Deferred tax	(67)	64
Prior year adjustment – deferred tax	(24)	6
Deferred tax re acquisition intangibles	(58)	(89)
Total deferred tax	(149)	(19)
Tax (income) for the year	(339)	(191)
Factors affecting the tax credit for the year		
Loss before tax	(1,181)	(451)
UK rate of taxation	19.00%	19.00%
Loss before tax multiplied by the UK rate of taxation	(224)	(86)
Effects of:		
Overseas tax rates	1	(3)
Impact of deferred tax not provided	108	10
Enhanced R&D relief	(129)	(148)
Disallowed expenses	43	14
IFRS 15 impact	-	(25)
Rate differences re current tax and deferred tax	8	(7)
Rate difference between CT rate and rate of R&D repayment	18	55
Prior year adjustments	(164)	(1)
Tax (income)	(339)	(191)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019
Continued

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

	Group			Company	
	2019 £'000	Movement £'000	2018 £'000	2019 £'000	2018 £'000
Internally generated intangible and fixed assets	160	(91)	251	-	-
Acquisition intangibles	180	(58)	238	-	-
	340	**(149)**	**489**	**-**	**-**

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

The UK corporation tax rate for the year is 19.00%. Deferred tax is provided in relation to the UK at a rate of 17%. The tax credit is impacted by the R&D tax credits available to the UK business. 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 £459,000 (2018: £154,000) for which no deferred tax asset has been recognised as the timing of their utilisation is uncertain.

Factors that may affect future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Act 2016 (on 15 September 2016), which included a reduction to the main rate of corporation tax to 17% from 1 April 2020.

As the changes have been substantively enacted at the reporting date, their effects are included within these financial statements. Accordingly, deferred tax balances have been calculated using a rate of 17%. The Chancellor's Spring Budget on 11 March 2020 announced that the UK corporation tax rate is to remain at 19% effective from 1 April 2020. This was enacted on 11 March 2020. The deferred tax balances have not been updated to reflect this.

10. Earnings per share

	2019 Using adjusted profit	2019	2018 Using adjusted profit	2018
(Loss)/profit attributable to ordinary shareholders (note 2)	£(30,000)	£(842,000)	£120,000	£(260,000)
Weighted average number of shares	19,668,021	19,668,021	19,668,021	19,668,021
Basic earnings/(loss) per share	(0.15) pence	(4.28) pence	0.61 pence	(1.32) pence
Weighted average number of shares after dilution	19,668,021	19,668,021	19,797,067	19,668,021
Fully diluted earnings/(loss) per share	(0.15) pence	(4.28) pence	0.61 pence	(1.32) pence

Reconciliation of basic to diluted average number of shares:

	2019	2018
Weighted average number of shares (basic)	19,668,021	19,668,021
Effect of dilutive potential ordinary shares – employee share plans	-	129,046
Weighted average number of shares after dilution	19,668,021	19,797,067

There are 1,970,005 (2018: 919,848) 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 loss for the financial year for the parent Company was £(1,843,000) (2018: profit £1,338,000) and has been approved by the Directors.

12. Goodwill

Group	Goodwill £'000
Cost	
At 1 January 2018	3,415
Additions	-
At 31 December 2018	**3,415**
Additions	**-**
At 31 December 2019	3,415

Carrying amount

At 31 December 2019	3,415
At 31 December 2018	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. At the year end the businesses were amalgamated, and operations have been merged across CGUs. The focus going forward will be on products and the revenue generated by each less the direct cost of sales of each product. For the purposes of the 2019 accounts the cash flow projections for the combined business have been allocated based on an estimate of gross margin less gross salary costs for each CGU covering a four year period and a calculation of the terminal value.

The key assumptions used for value-in-use calculations are those regarding growth rates 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% (2018: 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 2.0% (2018: 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 15% or an increase in the discount rate to 17.5% would reduce the headroom (£0.610m) to £nil for the Voyager and FCP consolidated CGU. For ISV the discount rate would need to increase to 17.5% or future forecast cash flows would need to fall by 11% to reduce the headroom (£0.215m) to £nil. Cashflows in respect of Dillistone CGU would need to reduce by over 61% 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 2019
Continued

13. Other intangible assets

Group	Development costs £'000	Purchased software £'000	Acquisition intangibles £'000	Total £'000
Cost				
At 1 January 2018	7,970	127	4,172	12,269
Additions	1,446	35	-	1,481
At 31 December 2018	9,416	162	4,172	13,750
Additions	1,067	4	-	1,071
At 31 December 2019	**10,483**	**166**	**4,172**	**14,821**
Amortisation				
At 1 January 2018	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
Charge for the year	1,255	31	305	1,591
At 31 December 2019	**7,428**	**47**	**3,112**	**10,587**
Carrying amount				
At 31 December 2019	**3,055**	**119**	**1,060**	**4,234**
At 31 December 2018	3,243	146	1,365	4,754

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 2019	**100**	**123**	**440**	**702**	**1,365**
Amortisation	(13)	(41)	(41)	(210)	(305)
At 31 December 2019	**87**	**82**	**399**	**492**	**1,060**

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 2018	186	861	165	1,212
Currency impact	-	4	1	5
Additions	-	55	-	55
At 31 December 2018	186	920	166	1,272
Currency impact	-	(2)	(1)	(3)
Additions	-	18	11	29
Disposals	(186)	(9)	-	(195)
At 31 December 2019	**-**	**927**	**176**	**1,103**
Depreciation				
At 1 January 2018	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
Currency impact	-	(2)	(-)	(2)
Charge for the year	29	50	6	85
Eliminated on disposal	(186)	(7)	-	(193)
At 31 December 2019	**-**	**882**	**167**	**1,049**
Carrying amount				
At 31 December 2019	-	45	9	54
At 31 December 2018	**29**	**79**	**5**	**113**

The Company has no property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019
Continued

15. Right of use assets

Group	Land and buildings £'000	Office & computer equipment £'000	Total £'000
Cost			
Reclassify at 1 January 2019	51	-	51
Additions	791	30	821
At 31 December 2019	**842**	**30**	**872**
Depreciation			
Reclassify at 1 January 2019	-	-	-
Charge for the year	114	4	118
At 31 December 2019	**114**	**4**	**118**
Carrying amount			
At 31 December 2019	728	26	754
At 31 December 2018	**-**	**-**	**-**

16. Non-current asset investments

Company	Investments in subsidiaries £'000
Cost	
At 1 January 2018	7,602
Impairment	(451)
At 31 December 2018	7,151
Impairment	(-)
At 31 December 2019	**7,151**

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. At the year end the businesses were amalgamated, and operations have been merged The focus going forward will be on products and the revenue generated by each less the direct cost of sales of each product. In view of the segment losses in 2019 an impairment review was carried out. The cash flow projections for the combined business have been allocated based on an estimate of gross margin less gross salary costs for each investment. These calculations use cash flow projections covering a four year period 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% (2018: 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 2.0% (2018: 2.5%).

The calculations for Voyager/FCP showed the discount rate would need to be increased by over 20% or the cashflow reduced by 24% before an impairment became necessary. An impairment for ISV of £0.1m would be required if the discount rate increased by 1% and if cashflows fell 1% then an impairment of £0.07m would be required. No impairment loss was required for Dillistone and cashflows would need to reduce by over 64% before impairment was considered necessary

The Company has the following subsidiary undertakings:

Name	Principal activity	Holding of ordinary shares	Registered
Ikiru People Limited (previously Dillistone Systems Limited)	Sale of computer software and related support services	100%	England & Wales
Ikiru People Pty Limited (previously Dillistone Systems (Australia) Pty Limited	Sale of computer software and related support services	100%	Australia
Ikiru People Inc (previously 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 (dormant from 31 December 2019)	100%	England & Wales
FCP Internet Holdings Limited	Dormant holding company	100%	England & Wales
GatedTalent Limited	Provision of software services (dormant from 31 December 2019)	100%	England & Wales
ISV Software Limited	Provision of software services and related consultancy services (dormant from 31 December 2019)	100%	England & Wales
Woodcote Software Limited	Dormant company	100%	England & Wales
Voyager Software Limited	Sale of computer software and related support services (dormant from 31 December 2019)	100%	England & Wales
Voyager Software (Australia) Pty Limited	Sale of computer software and related support services (dormant from 31 December 2019)	100%	Australia

The registered addresses of related undertakings are as follows:

Company	Registered Address
Dillistone Group Plc	12 Cedarwood, Crockford Lane, Chineham Business Park, Basingstoke, RG24 8WD
Ikiru People Limited	12 Cedarwood, Crockford Lane, Chineham Business Park, Basingstoke, RG24 8WD
Ikiru People Pty Limited	Suite 3, Level 3, 245 Castlereagh Street, Sydney, NSW 2000, Australia
Ikiru People Inc	221 River Street, 9th Floor, Suite 9126, Hoboken, NJ 07030, USA
FCP Internet Limited	12 Cedarwood, Crockford Lane, Chineham Business Park, Basingstoke, RG24 8WD
FCP Internet Holdings Limited	12 Cedarwood, Crockford Lane, Chineham Business Park, Basingstoke, RG24 8WD
GatedTalent Limited	12 Cedarwood, Crockford Lane, Chineham Business Park, Basingstoke, RG24 8WD
ISV Software Limited	12 Cedarwood, Crockford Lane, Chineham Business Park, Basingstoke, RG24 8WD
Woodcote Software Limited	12 Cedarwood, Crockford Lane, Chineham Business Park, Basingstoke, RG24 8WD
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

17. Inventories

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Licences for resale	-	3	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019
Continued

18. Trade and other receivables

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Trade receivables – net	1,000	1,171	-	-
Group receivables	-	-	913	1,253
Other current assets	19	35	-	-
Prepayments and accrued income	203	316	15	36
	1,222	**1,522**	**928**	**1,289**

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 expected credit losses (ECLs) provision 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 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 aging.

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.

	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	679	248	17	138	1,082
Loss Allowance Provision	22	21	3	36	82
Expected Loss Rate	*3%*	*9%*	*17%*	*26%*	

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

	£'000
Balance as at 1 January 2018	148
Unused amounts reversed	(2)
Amounts written off as uncollectible	(75)
Balance as at 31 December 2018	71
Increase during the year	11
Balance as at 31 December 2019	**82**

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

	2019 £'000	2018 £'000
Current	679	1,064
Past due date:		
Up to 30 days overdue	248	116
More than 30 days overdue	155	62
Total	**1,082**	**1,242**

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.

19. Trade and other payables

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Current liabilities				
Trade payables	661	776	107	122
Group payables	-	-	1,519	824
Deferred income	2,430	2,887	-	-
Accruals	886	707	297	145
	3,977	**4,370**	**1,923**	**1,091**

Non-current liabilities	**£'000**	**£'000**	**£'000**	**£'000**
Deferred Income	443	688	-	-
Cash settled LTIP	-	2	-	2
	443	**690**	**-**	**2**

The deferred income in 2019 and 2018 represents the entire balance of contract liabilities from contracts with customers. The movement on this balance is recognised as revenue in the reporting period.

20. Cash and cash equivalents

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Cash balances available on demand	690	725	-	-

The balances are shown gross before netting off as allowed by the Group's bank overdraft facility. A negative balance on UK accounts was £0.288m which would give a net cash balance of £0.402m.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019
Continued

21. Borrowings

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Current bank borrowings	534	-	534	15
Current loan note borrowings	17	14	17	14
Non current bank borrowings	128	-	128	-
Non current loan note borrowings	395	390	395	390
Total borrowings	**1,074**	**404**	**1,074**	**419**

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

In June 2019 the Company took out a loan from the Bank of £500,000 repayable over 2 years carrying an interest coupon of 3.25% over base. One of the conditions of the loan was that the loan notes repayment would be deferred until the bank borrowings were repaid.

The Group has an overdraft facility in the UK of £200,000 which was unused at the year-end (2018: unused). Under the banking arrangements all UK accounts are netted, however for the purposes of the accounts the balances are shown gross before netting off.

Reconciliation of liabilities arising from financing activities	2018 £'000	Cashflows £'000	Lease adjustments – see note 23 £'000	Non cash changes – interest adjustment £'000	Non cash Movement between current and non current £'000	Closing 2019 £'000
Non current borrowings						
Bank Loan	-	500	-	-	(372)	128
Convertible loan note	390	-	-	5	-	395
Lease liabilities	-	-	871	-	(130)	741
Total non current borrowings	**390**	**500**	**871**	**5**	**(502)**	**1,264**
Current borrowings						
Banking facility	-	288	-	-	-	288
Bank Loan	-	(126)	-	-	372	246
Convertible loan note	14	(30)	-	33	-	17
Lease liabilities	-	(85)	-	37	130	82
Total current borrowings	**14**	**47**	**-**	**70**	**502**	**633**

	2017 £'000	Cashflows £'000	Non cash changes – equity adjustment £'000	Closing 2018 £'000
Non current borrowings				
Convertible loan note	386	-	4	390
	386	**-**	**4**	**390**

22. Share capital

Allotted, called up and fully paid	2019 £'000	2018 £'000
Ordinary shares of 5p each	983	983

No share options were exercised in the period (2018: nil).

Shares issued and fully paid	2019 Number	2018 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

23. Lease arrangements

From 1 January 2019, the Group accounts for its leases under IFRS 16 as set out in Note 1, resulting in the following amounts being recorded:

Impacts on financial statements:

The effect of initially applying this standard is as follows:

(I) recognition of a right of use asset and depreciation of this asset;

(II) removal of rent prepayment/accrual and charge to statement of profit or loss; and

(III) recognition of lease liability non-current and current and interest on this liability.

The following table summarises the impact of transition to IFRS 16 on retained earnings at 1 January 2019.

	Note	Impact of adopting IFRS 16 at 1 January 2019 £'000
Right of use asset	15	51
Trade and other payables adjust provision for dilapidations		(5)
Loans and borrowings – non-current: lease liability due in more than one year		(6)
Loans and borrowings – current: lease liability due in less than one year		(40)
		-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019
Continued

Amounts recognised in the Consolidated Statement of Financial Position

Right-of-use assets	Land and Buildings £'000	Computer Equipment £'000	Total £'000
Balance at 1 January 2019	51	-	51
Additions	791	30	821
Depreciation charge of right-of-use assets	(114)	(4)	(118)
	728	26	754

Lease Liabilities	2019 £'000
Current	82
Non-current	741
	823

Amounts recognised in the Statement of Comprehensive Income

	2019 £'000	2018 £'000
Depreciation charge of right-of-use assets	118	-
Interest expense (included in finance cost)	37	-
Expense relating to short-term leases	141	-

Total Cash outflow for Leases in 2019 was:

	2019 £'000	2018 £'000
Short term leases	136	-
Leases under IFRS 16	49	-
Total cash outflow in respect of leases	**185**	**-**

The Group has an option to extend the lease of its Basingstoke office, which it has assumed it will do based on the considerations set out in Note 1.

The maturity of undiscounted lease liabilities is as follows:

	2019 £'000	2018 £'000
Less than one year	125	-
One to five years	554	-
More than five years	408	-
	1,087	**-**

Reconciliation of operating lease commitments in 2018 to recognised lease liabilities

	£'000
Minimum operating lease commitment at 31 December 2018	182
Less: short term leases not recognised under IFRS 16	(121)
Undiscounted lease payments	61
Less: effect of discounting as at the date of initial application	(15)
Lease liabilities recognised on 1 January 2019	**46**

As set out in Note 1, the Group has applied the modified retrospective approach with recognition of transitional adjustments on the date of initial application, being 1 January 2019, without restatement of comparative figures.

On adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities in relation to leases of office space. The Group has applied the practical expedient not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application, as permitted by the standard.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate (being the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions). The Group applied the practical expedient permitted by the standard to apply a similar discount rate to a portfolio of leases with similar characteristics. The rate applied was 5%. The right-of-use assets were recognised by reference to the measurement of the lease liability on that date, including estimates for items such as dilapidation cost obligations under the lease, and amortised on a straight-line basis.

The effects of adopting IFRS 16 for the period ending 31 December 2019 are as follows:

Impact on the Consolidated Statement of Comprehensive Income

	As reported 2019 £'000	IFRS 16 Adjustments 2019 £'000	Without adoption of IFRS 16 2019 £'000
Revenue	8,027		8,027
Cost of sales	(849)	-	(849)
Gross profit	7,178	-	7,178
Administrative expenses	(8,268)	(16)	(8,284)
(Loss) from operations	(1,090)	(16)	(1,106)
Finance expense	(91)	37	(54)
(Loss) before tax	(1,181)	21	(1,160)
Tax income	339	-	339
(Loss) for the year	(842)	21	(821)
Currency translation differences	(16)	-	(16)
Total comprehensive income for the year	**(858)**	**21**	**(837)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019
Continued

Impact on the Consolidated Statement of Financial Position:

	As reported 2019 £'000	IFRS 16 Adjustments 2019 £'000	Without adoption of IFRS 16 2019 £'000
Non-current assets			
Goodwill	3,415	-	3,415
Other intangible assets	4,234	-	4,234
Property, plant and equipment	54	-	54
Right-of-use assets	754	(754)	-
	8,457	(754)	7,703
Current assets			
Trade and other receivables	1,222	-	1,222
Current tax receivable	293	-	293
Cash and cash equivalents	690	-	690
Total current assets	2,205	-	2,205
Total assets	10,662	(754)	9,908
Liabilities			
Current			
Trade and other payables	3,977	48	4,025
Lease liabilities	82	(82)	-
Borrowings	551	-	551
Total current liabilities	4,610	(34)	4,576
Non-current liabilities			
Trade and other payables	443	-	443
Lease liabilities	741	(741)	-
Borrowings	523	-	523
Deferred tax liabilities	340	-	340
Total non-current liabilities	2,047	(741)	1,306
Total liabilities	6,657	(775)	5,882
Equity			
Share capital	983	-	983
Share premium	1,631	-	1,631
Merger reserve	365	-	365
Convertible loan reserve	14	-	14
Retained earnings	871	21	892
Share option reserve	94	-	94
Translation reserve	47	-	47
Total equity	4,005	21	4,026
Total Liabilities and Equity	10,662	(754)	9,908

Impact on the Consolidated Statement of Cashflows:

	As reported 2019 £'000	IFRS 16 Adjustments 2019 £'000	Without adoption of IFRS 16 2019 £'000
Operating Activities			
(Loss) before tax	(1,181)	21	(1,160)
Adjustment for			
Financial income	-	-	-
Financial cost	91	(37)	54
Depreciation and amortisation	1,794	(118)	1,676
Share option (gain)/expense	14	-	14
Other including foreign exchange adjustments arising from operations	(33)	-	(33)
Operating cash flows before movements in working capital	**685**	**(134)**	**551**
(Decrease)/increase in receivables	282	-	282
Decrease in inventories	3	-	3
Increase/(decrease) in payables	(603)	48	(555)
Add taxation (paid)/repaid	167	-	167
Net cash generated from operating activities	**534**	**(86)**	**448**
Investing Activities			
Interest received	-	-	-
Purchases of property plant and equipment	(29)	-	(29)
Sale of fixed assets	2	-	2
Investment in development costs	(1,070)	-	(1,070)
Net cash used in investing activities	**(1,097)**	**-**	**(1,097)**
Financing Activities			
Interest paid	(83)	37	(46)
Lease payments	(49)	49	-
Bank Loan less repayments	(126)	-	(126)
Utilisation of banking facility	288	-	288
Proceeds from bank loan	500	-	500
Net cash used by financing activities	**530**	**86**	**616**
Net change in cash and cash equivalents	**(33)**	**-**	**(33)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019
Continued

For comparative purposes, as at 31 December 2018, and as accounted for under IAS 17 per Note 1, the Group had future total commitments under non-cancellable operating leases as follows:

	2018 £'000
Commitments payable, being due:	182
Within one year	172
Between two and five years	10

24. 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. 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.

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

There were two grants of options in 2019. The weighted average share price of all grants in 2019 was 33p. The fair values of the services received in exchange for share based payments were calculated using a Black-Scholes pricing model. The inputs into the model were as follows:

Date of grant	Number granted	Share price on issue date	Exercise price	Expected volatility	Vesting period	Leaver rate over vesting period	Risk-free rate	Expected dividend yield
3 July 2019 LTIP/EMI	415,000	33p	33p	35%	3.3 years	10%	1.00%	2.0%
3 July 2019 EMI	165,000	33p	33p	35%	3.3 years	20%	1.00%	2.0%

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

	2019		2018	
	No of options	WAEP	No of options	WAEP
Outstanding at the beginning of year	1,975,561	69.40	2,367,445	74.75
Granted during the year	580,000	33.00	-	-
Exercised during the year	-	-	-	-
Forfeited during the year	(585,556)	77.32	(391,884)	101.73
Outstanding at the end of the year	1,970,005	56.33	1,975,561	69.40
Exercisable at the year end	408,7720	86.81	403,000	88.15

The Company's mid-market share price on 31 December 2019 was 24.5p. The average mid- market share price in 2019 was 34.47p.

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 £14,000 (2018: £5,000).

Share options remaining in the schemes are as follows:

Scheme type	Date of grant	Exercise from	Lapse date	Options remaining	Exercise price (p)
EMI	21/09/2011	21/09/2014	20/09/2021	76,500	77.00
Unapproved	21/09/2011	21/09/2014	20/09/2021	15,000	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	126,000	97.00
EMI	03/02/2015	03/02/2018	02/02/2025	58,500	90.50
Sharesave	14/10/2016	01/11/2019	30/04/2020	95,772	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	70,000	58.00
Sharesave	09/11/2017	01/12/2020	31/5/2021	97,233	52.20
EMI (LTIP)	03/07/2019	03/07/2022	02/07/2029	415,000	33.00
EMI	03/07/2019	03/07/2022	02/07/2029	165,000	33.00
				1,970,005	

The weighted average remaining contractual life of options at 31 December 2019 was 7.03 years (2018: 6.9 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 2019, the credit in respect of the LTIP schemes, which are share based and require separate disclosure under IFRS 2, was (£5,000) (2018: £7,000).

25. Financial instruments

The Group uses various financial instruments; these include cash, bank deposits, bank loans and various items such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations.

The Group's finance department maintains liquidity, manages relations with the Group's bankers, identifies and manages foreign exchange risk and controls Group treasury operations. Treasury dealings such as investments and foreign exchange are conducted only to support underlying business transactions. Consequently, the Group does not undertake speculative foreign exchange dealings for which there is no underlying exposure.

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

(i) Interest rate risk

The Group is exposed to interest rate risk on its floating rate borrowings and its financial assets. The interest rate profile of the Group's financial assets at 31 December 2019 was:

At 31 December 2019	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)	1,019	-	913	-
Cash and cash equivalents	-	690	-	-
Total	**1,019**	**690**	**913**	**-**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019
Continued

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 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 2019	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)	1,200	-	1,902	-
Trade and other payables (non-current liabilities)	-	-	-	-
Borrowings – convertible loan note	-	417	-	417
Borrowings – bank	-	662		662
	1,200	**1,079**	**1,902**	**1,079**

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**

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

(ii) Credit risk

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

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 18). 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 18. Covid-19 is not expected to impact 2019 balances. The Group will consider the impact of Covid-19 as part of its credit risk management procedures in 2020.

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	
	2019 £’000	2018 £’000	2019 £’000	2018 £’000
Trade and other receivables (current assets)	1,019	1,205	913	1,253
Cash and cash equivalents	690	725	-	-
Total	**1,709**	**1,930**	**913**	**1,253**

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 18.

(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 2019, 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 2019**	Carrying amount £’000	< 1 year £’000	1-2 years £’000	2-5 years £’000
Trade and other payables (current liabilities)	1,200	1,200	-	-
Trade and other payables (non-current liabilities)	-	-	-	-
Borrowings	791	263	528	-
Bank facility	288	288	-	
	2,279	**1,751**	**528**	**-**

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**	**-**

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019
Continued

Company At 31 December 2019	Carrying amount £'000	< 1 year £'000	1-2 years £'000	2-5 years £'000
Trade and other payables (current liabilities)	1,902	1,902	-	-
Trade and other payables (non-current liabilities)	-	-	-	
Borrowings	791	263	528	
Bank overdraft	288	288	-	-
	2,981	**2,453**	**528**	**-**

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**	

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

(iv) Foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases which are denominated in a currency other than Sterling. Exposures to currency exchange rates are primarily denominated in US Dollars ($), Australian Dollars (AUD) and Euros (€). The Group does not use derivatives to hedge translation exposures arising on the consolidation of its overseas operations.

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 £291,000 and liabilities totalling £371,000 denominated in Euros (2018: assets totalling £1,105,000 and liabilities totalling £695,000), assets totalling £996,000 and liabilities totalling £922,000 denominated in US Dollars (2018: assets totalling £1,239,000 and liabilities totalling £1,187,000) and assets totalling £491,000 and liabilities totalling £550,000 denominated in Australian Dollars (2018: assets totalling £497,000 and liabilities totalling £473,000).

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

	Group	
	2019 £'000	2018 £'000
Euros	23	26
US Dollars	1	4
Australian Dollars	(1)	(1)
	23	**29**

At the year end, the Company had liabilities totalling £116,000 denominated in Euros (2018: liabilities totalling £116,000), assets totalling £289,000 denominated in US Dollars (2018: assets totalling £288,000) and assets totalling £46,000 denominated in Australian Dollars (2018: assets totalling £42,000).

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	
	2019 £'000	2018 £'000
Euros	(6)	(6)
US Dollars	15	15
Australian Dollars	3	2
	12	**11**

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	2019 £'000	2018 £'000
Total borrowings	20	1,074	404
Less cash or cash equivalents		(690)	(725)
Net borrowings		**384**	**(321)**
Total equity		4,005	4,849
Total capital gearing ratio		9.6%	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	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Loans and receivables				
Cash and cash equivalents	690	725	-	-
Trade and other receivables	1,019	1,205	913	1,253
	1,709	**1,930**	**913**	**1,253**
Financial liabilities held at amortised cost				
Trade and other payables	1,200	1,128	1,902	1,070
Borrowings	412	404	412	404
Bank borrowings	662	-	662	15
	2,274	**1,532**	**2,976**	**1,489**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019
Continued

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 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.

26. Subsequent events

Like most businesses worldwide the Group is having to deal with the impact of COVID-19, with its primary concern being for the safety and wellbeing of its staff and their families. The Group has seen many of its clients shrink and with some clients closing. We have additionally supported many clients through agreeing discounted periods and deferred terms. Accordingly, we will see a reduction in revenue in 2020. However, the Group has acted quickly, taking advantage of various government schemes, including furloughing, and staff unanimously supporting a temporary pay-cut, including all executive and non-executive directors. Currently it is not possible to give a reasonable estimate of the impact on the results for 2020.

In June 2020, the Company secured a loan of £1.5m under the UK Government's Business Interruption Loan (CBIL) scheme. The Loan is repayable over 6 years with capital repayments commencing in July 2021. Interest is payable at 3.99% over base with the UK Government effectively paying the first 12 months interest under the CBIL scheme.

27. 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'.

28. Related party transactions

Group

The Directors received dividends paid by the Company of £nil (2018: £43,000).

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 £7,000 (2018: £10,000) (excluding Employer's NI) and related to estimated bonus payments payable in relation to 2019.

The Directors and certain key management participated in the issue of convertible loan notes in 2017as 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 £nil from its subsidiary company Dillistone Systems (US) Inc (2018: £nil). At the year end, Dillistone Systems (US) Inc owed £289,000 (2018: owed £282,000) to the Company.

During the current year Dillistone Systems Limited paid a management charge of £184,000 (2018: £264,000) to Dillistone Group Plc. At the year end Dillistone Systems Limited was owed £1,090,000 (2018: £185,000).

The Company was owed £46,000 (2018: £42,000) by Dillistone Systems (Australia) Pty Limited at the year end.

Voyager Software paid a management charge of £144,000 (2018: £144,000) and a dividend of £nil (2018: £500,000). It owed the Company £82,000 at the year end (2018: £255,000).

FCP Internet Limited paid a management charge of £84,000 (2018: £84,000) and a dividend of £nil (2018: £500,000) and was owed by the Company £421,000 at the year end (2018: owed by the Company £538,000).

A management charge of £60,000 (2018: £60,000) was received from ISV Software together with a dividend of £nil (2018: £250,000) and at the year end the Company owed ISV £7,000 (2018: £100,000).

GatedTalent Limited paid a management charge of £65,000 (2018: £50,000) and owed the Company £475,000 at the year end (2018: £654,000). The Company wrote off amounts due from GatedTalent of £1,450,000 during the year (2018: £nil).

FCP Internet Holdings Limited was owed by the Company £2,000 at the year end (2018: owed by the Company £2,000).

Woodcote Software Limited owed the Company £13,000 (2018: £13,000).

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

29. Dividends

The dividends paid in 2019 and 2018 were £nil and £98,000 (0.5p per share) respectively. No final dividend in respect of the year ended 31 December 2019 is proposed.

DIRECTORS AND ADVISERS

Directors	G R Fearnley Non-Executive Chairman M D Love — Non-Executive Director J S Starr – Chief Executive A D James – Product Development Director J P Pomeroy – Group Finance Director P Mather – Chief Operations Officer S Warburton – Chief Technology Officer
Secretary	J P Pomeroy
Company number	4578125
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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
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