ANNUAL REPORT **2020**

DSG
Dillistone Group Plc

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DILLISTONE GROUP PLC
POWERING RECRUITMENT

Dillistone Group operates in more than 60 countries over six continents and works with thousands of users. We have 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. We have a reputation for exceptional service, something that can be readily seen from our excellent Trustpilot scores.

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HIGHLIGHTS

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

- New operating structure delivers excellent customer service from reduced cost base
- Recurring revenues[1] represent 91% (2019: 82%) of Group revenue
- Recurring revenue covered 97% (2019: 89%) of administrative expenses before acquisition related and other costs[2]
- Improved adjusted operating loss[2] of £0.166m (2019: loss £0.207m) before acquisition related and other costs
- Reduced loss for the year of £0.663m (2019: loss £0.842m) despite the impact of Covid-19 on the business in 2020
- Granted CBIL loan of £1.5m
- Cash at year end was £1.3m
- Successful launch of Talentis executive search software (https://www.talentis.global/recruitment-software/insights/) after year end. First revenue now generated.

Definitions:

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

[2] Percentages and amounts based on adjusted profits figures – see note 2.

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

“The pandemic had a significant impact on the recruitment sector from which the Group derives the vast majority of its revenue. As a result, the business enters 2021 with lower recurring revenues than it entered the preceding year. However, the Board is pleased to report that the new operating structure implemented in 2019, and the further cost reductions implemented as a result of the pandemic, means that the Group is now operating with a much lower cost base. Furthermore, the Board believes that as revenues recover, the efficiencies realised will allow for improved operational leverage.

“The Group has had a positive start to the year in terms of trading, with incoming contracts ahead of management’s expectations. Furthermore, the Board believes that Talentis (https://www.talentis.global/recruitment-software/executive-search-software), the new product we announced in January 2021, will have a significant impact on the Group’s long-term performance. While the subscription nature of its revenue model means that realised revenue in 2021 will not be material, we are pleased to report that we have now generated our first revenue from the platform, with initial user feedback being almost universally excellent. Furthermore, we are pleased to report a rapidly developing sales pipeline.

“The Group has emerged from a challenging year in a strong position. Better than expected incoming orders in Q1 2021, improved operational leverage, a robust balance sheet and an enhanced product range gives the Board optimism for the future. The Board expects to issue a further update at the time of the AGM.

DILLISTONE GROUP AT A GLANCE

The Group trades through the trading name of Ikiru People

Ikiru People is a leader in the supply of technology solutions and services to recruitment, staffing and executive search businesses, as well as corporate talent acquisition 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 thousands of users, 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. We have a reputation for exceptional service, something that can be readily seen from our excellent Trustpilot scores.

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
GatedTalent generates revenue from both recruiters and executives. For recruiters, it provides candidate information and supports GDPR compliancy, while it supports executives with career advice and consultancy.

ISV.online
A market leader in online skills testing, working with recruiters, consultancies and employers to help them secure and retain the best talent.

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

Talentis Global
Talentis is the next generation of executive search and sourcing software. Its proprietary Talentis TalentGraph takes advantage of AI and big data technology to allow recruiters to track and engage with potential candidates across the web.

CHAIRMAN'S STATEMENT

For the year ended 31 December 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 have seen many of our clients shrink, with some clients closing. We have additionally supported many clients through agreeing discounted periods, contract variations and deferred terms.

The Board reacted swiftly, taking advantage of various government schemes, including furloughing, and staff unanimously supporting a temporary pay-cut (April to September), 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 enabling us to continue to deliver and develop products with confidence.

Development remains key to the Group's future success and we have continued to invest in our main products as well as actively developing our first new product for a number of years - Talentis. Talentis was announced in January 2021 and has been well received by the market. It utilises AI and big data advances to deliver, what the Board believes to be, a highly competitive solution for the needs of recruiters globally.

Looking back at 2020 the pandemic had a significant impact on revenue with the total falling 21% to £6.332m, and recurring revenue falling 13% to £5.745m. There was an adjusted operating loss in 2020 of £0.166m (2019: loss £0.207m), mainly due to the fall in revenue being offset with the full benefits of the reorganisation carried out in 2019, the benefit of costs savings measures introduced in 2020 and UK Government support through the furlough scheme and Australian grants. The operating loss, including reorganisation and acquisition related items, was £0.821m (2019: loss £1.090m).

Dividends

The Group is not recommending a final dividend in respect of the year to 31 December 2020 (2019: nil).

Staff

2020 has been a challenging year for everyone and on behalf of the Board I would like to take this opportunity to sincerely thank every one of our staff for their individual and collective contributions and for the professional way they have all risen to the challenges of the pandemic, continuing to deliver for our clients.

Corporate governance

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

Mike Love stepped down as a non-executive director in September 2020. I would like to sincerely thank him, for his outstanding contribution to the Group over many years. We also welcomed Steve Hammond to the Group Board in January 2021. Steve is the Chief Engineering Officer for the Group and oversees and is responsible for the development for all group products.

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 pandemic had a significant impact on the recruitment sector from which the Group derives the vast majority of its revenue. As a result, the business enters 2021 with lower recurring revenues than it entered the preceding year. However, the Board is pleased to report that the new operating structure implemented in 2019, and the further cost reductions implemented as a result of the pandemic, means that the Group is now operating with a much lower cost base. Furthermore, the Board believes that as revenues recover, the efficiencies realised will allow for improved operational leverage.

The Group has had a positive start to the year in terms of trading, with incoming contracts ahead of management's expectations. Furthermore, the Board believes that Talentis (https://www.talentis.global/recruitment-software/executive-search-software) the new product we announced in January 2021, will have a significant impact on the Group's long-term performance. While the subscription nature of its revenue model means that realised revenue in 2021 will not be material, we are pleased to report that we have now generated our first revenue from the platform, with initial user feedback being almost universally excellent. Furthermore, we are pleased to report a rapidly developing sales pipeline.

The Group has emerged from a challenging year in a strong position. Better than expected incoming orders in Q1 2021, improved operational leverage, a robust balance sheet and an enhanced product range gives the Board optimism for the future. The Board expects to issue a further update at the time of the AGM.

Giles Fearnley
Non-Executive Chairman
28 April 2021

CEO'S REVIEW

For the year ended 31 December 2020

Our Group generates the vast majority of its revenue from the recruitment sector and, with an estimated 250 million jobs lost globally in 2020 as a result of the pandemic, it has been a challenging year, and I'd like to begin my review by thanking my colleagues across the world for the resilience and efforts they demonstrated during this exceptional period.

Across our product range, we provide solutions to facilitate everything from the scheduling of fast moving volume temporary placements through to the headhunting of CEOs, and from pre-employment testing of skills through to support with executive career branding.

Strategy and objectives

For any business dependent on recruitment-based revenues, Covid-19 constituted an existential risk. As a result, the Board has taken the view that our overriding objectives need to reflect our new environment and are consequently:

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

While many of our markets remain challenging, it is the current view of the Board that the existential risk to the business has now passed and that 2021 will see a return towards normality.

As a result, while we will continue to respond to extraneous factors, management is now focussed on returning the business to growth.

Key Performance Indicators (KPIs)

As stated above, objectives changed in 2020 and were based around dealing with the Covid pandemic. Accordingly, the key KPIs for 2020 were:

KPI	2020 outcome
Maintain a strong and stable financial position	£1.291m cash at year end
Protect and prioritise our product and development efforts	Development on key products continued and Talentis was launched in January 2021

CEO'S REVIEW
Continued

Our business model

Following the reorganisation in 2019, the business is now organised as one trading division – Ikiru People rather than 3 divisions: Dillistone Systems, Voyager Software and GatedTalent. The reorganisation brought all of these businesses together with a strong focus on the products we sell.

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

1. Software as a Service (SaaS) subscription basis; or
2. an upfront licence fee plus a recurring support fee; 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 fee towards cloud delivery (SaaS) services.

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 significant proportion of our clients. This is done through Microsoft Azure and AWS cloud data centres in Europe, the Americas, Singapore and Australia.

Group review of the business

2020 saw recurring revenues fall 13% to £5.745m (2019: £6.593m) reflecting the impact of Covid-19. Attrition exceeded new contract wins in the year. Non-recurring revenues were also impacted by Covid-19 and fell 58% to £0.485m (2019: £1.160m). As a result, overall revenues decreased by 21% to £6.332m (2019: £8.027m) with recurring revenues representing 91% of Group revenues (2019: 82%). Cost of sales reduced 31% to £0.584m (2019: £0.849m). Adjusted EBITDA[1] was down 9% to £1.168m (2019: £1.282m). There was an adjusted operating loss of £0.166m (2019: loss £0.207m) and there was a pre-tax loss before acquisition related items and reorganisation and other adjustments of £0.259m (2019: loss £0.298m). The operating loss for the year reduced to £0.821m (2019: loss £1.090m) with reorganisation and other costs totalling £0.442m (2019: £0.578m) and acquisition related amortisation of £0.213m (2019: £0.305m). The loss for the year was £0.663m (2019: loss £0.842m). Net cash at the year end was £1.291m (2019: £0.402m).

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

Covid-19

The Covid-19 pandemic has had a major impact on the world economy and in our target market – recruitment. This has affected our business with many of our clients shrinking and with other clients ceasing to trade, directly impacting our revenue.

We reacted swiftly to control the impact of Covid-19 on our business, taking the following actions:

- Taking advantage of the UK Government furlough scheme
- Implementing a temporary pay cut (April to October)
- Switching to home working for the vast majority of staff
- Offering support packages to our clients to help them survive the period and, hopefully, remain as customers
- Using Government support in other jurisdictions where appropriate
- Agreeing the postponement of repayments on our £500,000 bank loan for 6 months. We are on track to repay this loan in full by 30 June 2021
- Obtaining a £1.5m loan under the Government's Business Interruption Loan scheme
- Making necessary redundancies in light of the reduced trading activity.

While we believe the existential threat to the business has passed, uncertainty still remains around the impact of the pandemic. 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.

Further details of this work are contained in Note 1.2 on Going Concern. We are pleased to note that, with the funding support in place, our Balance Sheet remains strong.

Section 172 Statement

The directors are required to 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.

Guidance recommends that in connection with its statement, the Board describes 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 12 to 17. 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 two decisions taken during the year fall into this category. These are:

- The Board carried out a detailed review on actions needed to manage the business through the uncertainties caused by the pandemic which are discussed above in the section on Covid-19. The actions were kept under frequent review through the period.
- The decision to take out a CBIL loan of £1.5m to ensure that the Group had sufficient resources to manage through the Covid pandemic and also to allow it to continue to invest in its product development. In view of the share price at the time, the Board considered it to be in the best interest of shareholders to raise this money via a bank loan, rather than dilute shareholders through a placing.

Financial risk management

The Group's operations expose it to a number of risks that include the effect of changes in interest rates, credit, foreign currency exchange rates and liquidity. The Group does not trade in financial instruments. Further details in relation to these risks are shown in note 24.

Interest rate risk

The Group is exposed to interest rate risk through its 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 broad customer base and is not dependent on a small number of customers. Covid-19 did result in a significant number of clients being unable to pay in accordance with their contractual terms. Where possible the Group was sympathetic to such circumstances. We also allowed customers to reduce the number of software licences they used.

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 transaction exposure arises when repatriating profits. The Group generally only seeks to remit cash when required in the UK and it usually has some flexibility on timing of such appropriations to minimise exchange losses and the impact of interest rates. 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.

CEO'S REVIEW
Continued

Principal risks and uncertainties

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

Risk	Potential adverse impact	Mitigation
Economic risk	The recruitment industry has a reputation for being vulnerable to the cyclical nature of the economy. This can impact significantly on non-recurring revenue and to a lesser extent recurring revenue.	The Company operates globally and so is not entirely reliant on one economy. It enjoys a high percentage of recurring revenues 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 are developed to minimise risks. Increased use of 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 addressing issues where appropriate. Support provided to clients during the Covid crisis. The Group continues to invest in new products and with new features being added to existing products.
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 2020 saw the continued development of temp functionality to Infinity, of ISV Online and FileFinder. The Group continues to innovate and provide solutions to client needs. Talentis was launched in January 2021 taking advantage of AI and big data technology to allow executive recruiters to track and engage with potential candidates across the web. The Group continues to look to develop further new products and additional features.

Risk	Potential adverse impact	Mitigation
Business continuity risks associated with information systems, operational failure, data security and cyber security risks	A failure of systems or failure of hosting facilities leading to loss of customer confidence in the Group being able to deliver their requirements. Loss or corruption of data held on behalf of customers which could have a detrimental effect on their confidence in data security processes and could cause financial loss. External attacks on servers could result in lost or corrupted data and loss of reputation.	The Group 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. The Information Security Committee meets monthly to review appropriate risks and strategies.
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 individual's 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.	One of the key purposes of the major restructuring in 2019 was to help add efficiencies to the Group and reduced the layers of management. This has been achieved.
Foreign exchange volatility	The Group has substantial operations in both the UK and overseas. Profits are exposed to variations in exchange rates thereby impacting on reported profits.	There is usually some element of natural hedge in the currencies, although if sterling strengthens against all currencies, it can have a negative impact on results.
Brexit	Potential economic uncertainty could lead to a reduction in orders in the short to medium term, impacting adversely on the Group's results. It may impact recruiting individuals with European languages requirement. It may increase the time and difficulty in recruiting skilled employees.	Clients normally 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 whenever necessary.
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. A senior member of the executive team has GDPR practitioner certificate. An appropriate internal committee established. Data Protection Officer ('DPO') is appointed.
Reliance on core 3rd party services, systems and integrations	The Group's solutions will utilise, take advantage of or integrate with a number of 3rd party products and services. In some cases these are integral to core functions. Should these services, systems or 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 generally make clear where our responsibility ends and 3rd party function begins protecting us from contractual recourse.

CEO'S REVIEW
Continued

Principal risks and uncertainties
Continued

Risk	Potential adverse impact	Mitigation
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.
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 continues to actively monitor the impact of Covid-19 on its business. The Group obtained a loan of £1.5m through the Government Business Interruption Loan scheme in June 2020. It has also taken advantage of overseas loans and grants.

FINANCIAL REVIEW

For the year ended 31 December 2020

Total revenues decreased by 21% to £6.332m (2019: £8.027m) with recurring revenues decreasing by 13% to £5.745m (2019: £6.593m) and non-recurring revenues by 58% to £0.485m (2019: £1.160m). Third party resell revenue amounted to £0.102m in the period (2019: £0.274m).

Cost of sales decreased to £0.584m (2019: £0.849m). Administrative costs, excluding acquisition related items and other costs and excluding depreciation and amortisation, fell 22% to £4.580m (2019: £5.896m). This was in part due to the full year impact of the reorganisation carried out in 2019 and the additional measures that were taken in 2020 to reduce the cost base. Depreciation and amortisation (excluding acquisition related amortisation and one-off write-offs) decreased to £1.334m (2019: £1.489m).

Acquisition related and other costs totalled £0.655m (2019: £0. 883m) and were in respect of:

- the amortisation of intangibles arising from acquisitions £0.213m (2019: £0.305m).
- other costs of £0.442m (2019: £0.578m) which included the write-off of intangibles discussed below.

Recurring revenues covered 97% of administrative expenses before acquisition related and reorganisation and other costs (2019: 89%). The administrative costs, excluding depreciation and amortisation of our own internal development and before acquisition related and reorganisation and other costs, are covered 125% (2019: 112%) by recurring revenues.

The Group benefitted from an income tax credit in 2020 of £0.251m (2019: credit £0.339m). The 2020 credit reflects the R&D tax credits available in the UK with the assumption that tax losses will be surrendered for the R&D tax credit payment where possible. It also reflects a prior year adjustment of a credit of £0.108m as the tax computations in respect of prior years were finalised and agreed. The acquisition related items tax credit of £0.041m (2019: £0.058m) reflects the reduction in deferred tax that arises as amortisation is charged in the income statement. The deferred tax charge also reflects the change in deferred tax rate to 19% (from 17%) and has been reflected through the prior year adjustment.

Loss for the year before acquisition related and reorganisation and other costs amounted to £0.116m (2019: loss £0.030m). The 2020 adjusted loss benefitted from tax income of £0.143m (2019: tax income of £0.268m). The statutory loss for the year was £0.663m (2019: loss £0.842m). Basic loss per share (EPS) was (3.37)p (2019: (4.28)p). Fully diluted EPS was to (3.37)p (2019: (4.28) p). Adjusted basic EPS fell to (0.59)p (2019: (0.15p)).

Dillistone Group Plc company results show a loss of £0.098m (2019: loss £1.843m).

Capital expenditure

The Group invested £0.971m in property, plant and equipment and product development during the year (2019: £1.100m). This expenditure included £0.969m (2019: £1.067m) spent on capitalised development related costs. The Group also wrote off intangibles assets with a net book value of £0.435m and included these costs in reorganisation and other costs.

Trade and other payables

As with previous years, the trade and other payables includes deferred income of £2.029m (2019: £2.873m), 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 2020 but are in respect of services to be delivered in 2021. 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”.

Cash and debt

The Group finished the year with cash funds of £1.291m (2019: £0.402m). The Group obtained a loan of £1.5m in June 2020 under the Government CBIL scheme, which is repayable over 6 years with no repayment in the first year. The Group also received a six month payment holiday in respect of its June 2019 loan with repayments totalling £0.166m (2019: £0.126m). The Group expects to complete repayment of this loan in June 2021.

Bank borrowings at 31 December 2020 were £1.802m (2019: £0.374m.) The Group also had a convertible loan of £0.408m (2019: £0.412m). It was agreed in the year that the convertible loan notes held by the Directors, would not be repaid until the bank loan was repaid.

On behalf of the Board

Julie Pomeroy
Finance Director

28 April 2021

The Strategic Report is signed on behalf of the Board by

Jason Starr
Chief Executive

28 April 2021

CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2020

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 8 to 10.

The business trades under the Ikiru People name and specialises in the supply of software and services into the recruitment industry and corporate talent acquisition teams. Its products support executive recruitment, permanent placement, contract placement and the provision of temporary staff. It also provides professional services on demand and generates a small amount of revenue from reselling third party products and services as well as providing services to job seekers.

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 and reporting on this and other significant developments. The Chief Operating Officer is responsible for reporting on operational activities, performance and risks 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 offer 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 make themselves available to speak to potential 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 the majority of AGM resolutions proposed have been passed.

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 many clients. Customer feedback is considered at management meetings, and our services evolves accordingly. Senior executives have frequent discussions with key customers and social media is used to inform customers and potential customers of relevant updates.

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 90 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.

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

Compliance

The Board undertakes a regular and robust assessment of the effectiveness of the Group's risk management framework at least annually. Each Board meeting includes an agenda item on risk and consideration is also given to whether any new risks have been identified. The latest annual summary of the significant risks and uncertainties, is contained in pages 8 to 10. We do not have a formal risk committee, although there is an Information Security 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.

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.

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 considers its composition, with only 1 Non-executive director, acceptable for an AIM-quoted Group of its size, market cap, and individual circumstances.

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 22 and 23 or on our website.

Non-Executive Directors		
G R Fearnley	Non-executive Chairman	Independent - Mr Fearnley holds 2.5% of the share capital and this level of holding is not considered by the Board to change his independence. Commitment to the business is as required and averages approximately 1 day per month
MD Love	Non-executive director (until 22 September 2020)	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 was approximately 1/2 day per month
Executive Directors		
J S Starr	Chief Executive Officer	Full time
A D James	Chief Product Officer	Full time
J P Pomeroy	Finance director	Part time – 4 days per week
P Mather	Chief Operations Officer	Full time
S Warburton	Chief Technology Officer	Full Time
S Hammond	Chief Engineering Officer from 28 January 2021	Full Time

CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2020
Continued

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 six Executive and one Non-Executive Director (including the Non-Executive Chairman).

The Chairman and the Board collectively believes this split between its Executive and Non-Executive Directors is appropriate at this stage.

The Group considers that its Non-executive director is independent as discussed above. The Board considers its composition acceptable for an AIM-quoted Group of its size, market cap, and individual circumstances.

The Board meets at least five times each year, and more frequently when required, 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 typically 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 2020 is set out below.

Name	Number of meetings held	Number of meetings attended
G R Fearnley	9	8
M D Love	8	4
J S Starr	9	8
A D James	9	8
J P Pomeroy	9	9
P Mather	9	9
S Warburton	9	8

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. Giles Fearnley has served on the Board for more than 9 years; despite serving the Board on a long term basis, the Directors individually believe that he acts objectively in his role 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 Non-executive director, meets twice yearly. The remuneration committee again is made up of the independent Non-executive director and meets on an adhoc basis. Other Board members may attend these meetings by invitation.

The nomination committee meets as and when required and there were no such meetings in 2020.

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 2020, trading management accounts were also produced and circulated to the senior management team.

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 22 and 23 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.

Board member	Role	Experience
Giles Fearnley	Chairman	Giles has significant experience leading large businesses in the passenger transport sector. He brings real commercial judgement to Dillistone through his knowledge of working in challenging sectors.
Jason Starr	CEO	Jason has worked for the majority of his career at Dillistone and so knows the sector extremely well. He also brings further AIM experience through his role as a non-executive director of AIM listed PCIPAL PLC where he chairs the remuneration committee and sits on the Audit committee.
Alex James	Chief Product Officer	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.
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.
Paul Mather	Chief Operations Officer	Paul has a strong background in operations and had been the Voyager division Operations Director since 2003.
Simon Warburton	Chief Technology Officer	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.
Steve Hammond	Chief Engineering Officer from 28 January 2021	Steve has a multifaceted IT background spanning more than 20 years with a blend of technical, software development and business roles throughout that time. He joined the Group after the acquisition of ISV Software Ltd in 2014.

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. It was based on a board evaluation questionnaire and assessment criteria. 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. The next Board evaluation will be carried out in 2021.

Directors' performance is reviewed formally by the Chairman on an annual basis.

The Board keeps under review the strength and depth of its senior management. Succession planning is considered as part of the Board appraisal process.

CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2020
Continued

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 and a NED
Mike Love	Independent Director resigned September 2020	NED
Jason Starr	CEO	Managing the Group's businesses
Alex James	Director	Responsible for product direction.
Julie Pomeroy	Finance director	Group finance director and Company Secretary.
Paul Mather	Director	Responsible for day to day global operations of the business
Simon Warburton	Director	Responsible for the IT infrastructure alongside his other responsibilities in the sales, marketing and account management operations
Steve Hammond	Director (from 28 January 2021)	Responsible for the R&D and software engineering strategy of the Group's software products

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 1 non-executive director and formally 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. Members of the executive team may join by invitation.
- 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.

Management meetings consisting of the executive directors and senior management team take place on a monthly basis.

A separate Information Security committee exists and meets monthly or more frequently if required. 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 offer 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 new 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 the majority of AGM resolutions proposed have been passed;

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 19 to 21 and the audit committee report in on page 18.

The Group provides regular updates to customers and other interested parties via social media.

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 2020

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 were myself, Giles Fearnley, as Chair and Dr Mike Love until his resignation in September 2020. We were both independent Non-Executive Directors. The Board is of the view that we have recent and relevant experience. In 2020 two meetings were held. 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. The Key issues addressed at the meetings were in respect of the going concern reviews and the impairment reviews.

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 55 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 2021.

Giles Fearnley
Chair of the Audit Committee

28 April 2021

REPORT TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION

For the year ended 31 December 2020

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 Director has a letter of appointment providing a fixed three-year service period, which may be terminated by giving six months' notice.

Non-Executive Directors' remuneration

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

The Chairman and any 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. They also participate in the Group Life assurance scheme and are entitled to join the private medical insurance scheme.

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.

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 2020 financial year is £nil (2019: £nil).

The second scheme is a long-term incentive plan linked to growth in earnings per share over a three year period or other targets set by the Remuneration Committee. At the discretion of the Remuneration Committee, Executive Directors are either granted share options at the ruling mid-market price at the time of the grant or a pure cash bonus fixed as a percentage of salary. The awards are subject to meeting challenging targets. Annual awards are usually made under this scheme. Where options are awarded, the value of the award is calculated using a Black-Scholes model (see note 23 for further details). The awards made in the period are included in the LTIP tables below.

Directors' remuneration

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

	Salary*[1] and fees £'000	Pension payments £'000	Benefits £'000	2020 Total £'000	2019 Total £'000
Executive Directors					
J S Starr	119	9	1	129	134
A D James	92	11	1	104	107
J P Pomeroy	89	11	3	103	104
P Mather ***	95	12	-	107	-
S Warburton	93	12	1	106	-
R Howard **	-	-	-	-	122
A Milne **	-	-	-	-	148
Non-Executive Directors					
M D Love****	-	-	-	-	35
G R Fearnley	27	-	-	27	13
	515	**55**	**6**	**576**	**663**

* Salary is calculated after deducting salary sacrifice payments which totalled £24,000.

** R Howard and A Milne left the Group on 31 December 2019

*** P Mather salary does not include that of his wife who is employed by the Group as a software developer.

**** MD Love was chairman until 31 December 2019 and then a Non Executive December until he resigned in September 2020

[1] The directors took a temporary salary cut through April to September.

REPORT TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION

For the year ended 31 December 2020
Continued

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

LTIP award – % of salary arrangement

	Maximum payout awarded in period £'000	Paid in the year including Employer's NI £'000	Total value of salary based LTIP awards carried at 31 December 2020* £'000	Total value of all salary based LTIP awards carried at 31 December 2019* £'000
J S Starr	-	-	-	2
R Howard	-	-	-	2
	-	-	**-**	**4**

* 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 2020	Total number of options granted under LTIP scheme at 31 December 2019
J Starr	-	20,000	20,000
A D James	-	20,000	190,000
J P Pomeroy	-	20,000	190,000
A Milne*	-	-	170,000
P Mather	-	75,000	170,000
S Warburton	-	40,000	135,000
Total	**-**	**175,000**	**875,000**

No options were exercised in the year.
*A Milne left 31 December 2019

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 2020	At 31 December 2019
J S Starr	3,577,591	3,577,591
A D James	112,744	112,744
G R Fearnley	453,435	453,435
J P Pomeroy	63,733	63,733
P Mather	32,177	32,177
S Warburton	77,290	77,290

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 2020	At 31 December 2019
J S Starr	£24,250	£24,250
A D James	£1,000	£1,000
G R Fearnley	£75,000	£75,000
J P Pomeroy	£10,000	£10,000
P Mather	£7,500	£7,500
S Warburton	£8,000	£8,000

The Loan Notes carry an interest coupon of 8.15% pa, 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 2020	At 31 December 2019
J S Starr	20,000	20,000
A D James	36,250	190,000
J P Pomeroy	43,146	201,523
P Mather*	98,146	181,523
S Warburton	100,646	184,023
	298,188	**777,069**

*excludes options held by Mr Mather's spouse

BOARD OF DIRECTORS

For the year ended 31 December 2020

GILES FEARNLEY
66
CHAIRMAN

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 retired in November 2020 from the role of Managing Director - Bus, UK and Ireland for First Group Plc. Giles has served as chairman of both the Association of Train Operating Companies and the Confederation of Passenger Transport UK.

JASON STARR
49
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.

ALEX JAMES
48
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.

JULIE POMEROY
65
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.

MIKE LOVE
72
NON-EXECUTIVE DIRECTOR (RESIGNED SEPTEMBER 2020)

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.

PAUL MATHER
45
CHIEF OPERATIONS OFFICER

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. Paul was Operations Director for the Voyager Division following its acquisition by the 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
44
CHIEF TECHNOLOGY OFFICER

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.

STEVE HAMMOND
38
CHIEF ENGINEERING OFFICER

Steve Hammond has a multifaceted IT background spanning more than 20 years with a blend of technical, software development and business roles throughout that time. He joined the Group after the acquisition of ISV Software Ltd in 2014. Post-acquisition, Steve continued his role of Director of IT for ISV, and in 2019 became responsible for the R&D and software engineering strategy of the Group's software products. Steve was appointed as CEngO in January 2021.

DIRECTORS' REPORT
For the year ended 31 December 2020

The Directors present their report and financial statements for the year ended 31 December 2020.

Results and dividends

The consolidated statement of comprehensive income for the year is set out on page 35.

No final dividend will be paid (2019: nil)

Directors

The following Directors have held office since 1 January 2020:
M D Love – resigned 22 September 2020,
J S Starr
A D James
J P Pomeroy
G R Fearnley - Non-Executive Director and became Chairman on 1 January 2020
P Mather appointed 2 January 2020
S Warburton appointed 2 January 2020
S Hammond appointed 28 January 2021

The interests of the Directors (including family interests) in the share capital of the Company are listed on pages 20 and 21.

Alex James is proposed for re-election at the forthcoming AGM. Alex has a service contract with a one year notice period. Giles Fearnley has been Non-Executive Director for over nine years and therefore will offer himself for re-election annually. As Steve Hammond has been appointed since the last AGM he is 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 11. In addition, note 24 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk. The Group prepare budgets and cashflow forecasts to ensure that the Group can meet its liabilities as they fall due.

A degree of doubt still remains with regard to the impact on the Group of the COVID-19 outbreak and the continuing lockdown into 2021 and this has been taken into account in considering the Group's adoption of the going concern basis. The Group has seen many of its clients shrink and with some clients closing. As such this has been built into the 2021 budgets and subsequent years forecasts. The Group continues to take advantage of the flexible furlough scheme and has secured a second payroll protection loan in the US.

It is a requirement that the Board considers extreme scenarios, even if they are unlikely to arise. A stress test scenario has been modelled that took £70,000 per month off Revenue from May 2021 has been considered. 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 an overdrawn £212,000 position in November 2021. This would slightly exceed the Group's overdraft of £200,000.

Based on current trading, the stress test scenario is considered remote. However, it is difficult to predict the overall impact and outcome of COVID-19 at this stage. Nevertheless, after making enquiries, and considering the uncertainties described above, 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 account.

Energy and carbon emissions

The Group recognises that it has a responsibility to help protect the environment and works to minimise the environmental impact of our operations. As part of this initiative, whilst we are not required to report under SECR (UK Streamline Energy & Carbon Reporting) regulations, we have begun to start tracking selected data to give us a benchmark for further improvements in subsequent years. As our operations are "office based" with no freight or logistical supply chain, our activities are typically not regarded as having a high environmental impact.

It should be noted that our office accommodation globally is either rented or housed in serviced offices so we are limited in some of the direct measures we can take on our own. For example, we could not change the HVAC (Heating, Ventilation & Air Conditioning) systems in a serviced office. None the less we have taken the following actions in 2020 to attempt control emissions where we can:

i) Reviewed electronic system power and hibernation policies to minimise electrical use
ii) Ensured that Energy efficiency is a key factor when purchasing new or replacement hardware
iii) Swapping out lighting with higher efficiency bulbs on replacement in our rented accommodation
iv) Utilised motion activated lighting throughout our premises
v) Utilised video conferencing where possible to reduce business travel
vi) Encouraged staff to walk to local amenities from their office locations during breaks
vii) Reinforced existing recycling and "print only if required" policies

As noted, we have begun to tackle our energy consumption for internal purposes and will report on our energy use (kWh) and emissions (kgCO2e). We will use the business metrics of FTE and revenue to give two useful intensity ratios. It must obviously be acknowledged that using 2020 data as a baseline comes with the caveat that this was a year where the Groups operations were significantly impacted by the COVID pandemic and so will not be comparable to prior years given the high proportion of staff who have been working from home and the reduction in business mileage and travel.

When viewed more pragmatically it is likely that despite this, the environmental impact of the Group could well be higher in 2020 and 2021 when you factor for 80% of staff regularly working from home with their own heat, light and power consumption being less efficient than a consolidated office environment, although in part this will be offset by commute emissions savings.

We have used the following ratios for 2020 in our calculations:
1 kWh electricity = 0.23314 kgCO2e
1 business travel mile = 0.28053 kgCO2e
1 business travel mile = 1.16319 kWh

DSG UK emissions 2020	Energy (kWH)	Factor	Emissions (kgCO2e)	%
Electricity – Cedarwood	71809	0.23314	16741.55	85%
Travel (10628 miles)	12362.38		2981.47	15%
Total	**84171.38**		**19723.02**	**100%**

Intensity ratio		
FTE 30th Dec 2020	78	
Revenue 2020	£6,332,000	
Intensity ratio FTE	252,859	kgCO2e/FTE
Intensity ratio Revenue	0.0031148	kgCO2e/£

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.

DIRECTORS' REPORT

For the year ended 31 December 2020
Continued

Overseas branch operations

The Group has a branch operating in Germany. Details of all subsidiaries and their locations are detailed in note 16.

Annual General Meeting

The Company's Annual General Meeting will be held on 16 June 2021 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' 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

28 April 2021

INDEPENDENT AUDITOR'S REPORT

to the members of Dillistone Group Plc
For the year ended 31 December 2020

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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.

We have audited the financial statements of Dillistone Group Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2020 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the 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 their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Parent Company financial statements, as applied in accordance with the provisions 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remain 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The Group's continuing losses, along with other factors, including cash burn rate, decreasing revenue year on year and the impact of COVID-19 pandemic, are indicators that the risk associated with the Group's going concern status is greater than normal. The calculations supporting the going concern assessment require management to make highly subjective judgements. We have therefore spent significant audit effort in assessing the appropriateness of the assumptions involved, and as such this has been identified as a Key Audit Matter.

Significant judgements and estimates related to going concern are disclosed in note 1.2 of the consolidated financial statements.

Our response to this key audit matter and our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Critically evaluating the key underlying assumptions used in the Group's forecasts around the achievement of forecast revenue and costs, through robust interrogation of the forecasts and understanding how these were derived;
- Assessing the Group's historical budgeting accuracy, via a retrospective review of actual performance against budget;
- Analysing changes in key assumptions including a reasonably possible (but not unrealistic) reduction in forecast revenue to understand the sensitivity in the cash flow forecasts;
- Reviewing the terms of the £1.5m CBIL loan received during the 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;
- Reviewing post-balance sheet events; and
- Considering the appropriateness of the related disclosures against the requirements of the accounting standards.

INDEPENDENT AUDITOR'S REPORT

to the members of Dillistone Group Plc
For the year ended 31 December 2020
Continued

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group, or Parent Company's, ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage	98% (2019: 100%) of Group loss before tax 100% (2019: 100%) of Group revenue 99.6% (2019: 95%) of Group total assets		
Key audit matters		2020	2019
	KAM 1 – Capitalisation of development costs	✓	✓
	KAM 2 – Revenue recognition	✓	✓
	KAM 3 – Impairment of goodwill and intangible assets	✓	✓
	KAM 4 – Going concern	✓	✓
Materiality	*Group financial statements as a whole* £111,000 (2019:£120,400) based on 1.5% (2019: 1.5%) of revenue		

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. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

We identified two centrally controlled components as significant, Dillistone Group Plc (the parent company) and Ikiru People Limited. Both significant components were subject to full scope audits performed by BDO LLP.

We identified two components not considered significant to the Group. For one of these components specific audit procedures were performed by BDO LLP. For the remaining component, specific scope audit procedures were performed by a BDO Member Firm on instruction from BDO LLP.

Our involvement with component auditors
For the work performed by component auditors, we determined the level of involvement needed in order to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole. Our involvement with component auditors included the following:

- The provision of specific written instructions, including our knowledge of the component and understanding of the risks of material misstatement;
- Detailed review of the work undertaken directly within our Group audit file by the BDO Member Firm.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that 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. In addition to the key audit matter described in the Conclusions relating to going concern section above, we have identified the following key audit matters:

<table>
<tr><th colspan="2">Key audit matter</th><th>How the scope of our audit addressed the key audit matter</th></tr>
<tr><td>Capitalised development costs</td><td>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 page 2.

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 individuals not in the development team to be capitalised.

Management have also utilised significant judgement in assessing the technological and commercial feasibility of the projects.</td><td>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 by reference to their use and income generation.

• Reviewing all project summary reports for all ongoing and completed projects during the year to validate that a sample 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.

Key observations:
Based on procedures performed, we consider the judgements made by management in capitalising development costs were reasonable and that the costs capitalised by management were in line with the requirements of IAS 38.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT

to the members of Dillistone Group Plc
For the year ended 31 December 2020
Continued

Key audit matter		How the scope of our audit addressed the key audit matter
Revenue recognition	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 revenue 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.	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. *Key observations:* Based on the procedures performed no issues have been identified regarding revenue recognition.

Key audit matter		How the scope of our audit addressed the key audit matter
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. Management considers that there is only one Cash-Generating Unit (CGU) following the restructure. During the current period, the Group continued to experience lower sales and losses 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. During the year management identified a write off in respect of obsolete software. 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. • We reviewed management's rationale for the write-off and agreed amounts to underlying records. *Key observations* Based on procedures performed consider that management's judgements and disclosures were appropriate.

INDEPENDENT AUDITOR'S REPORT

to the members of Dillistone Group Plc
For the year ended 31 December 2020
Continued

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in 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 level, 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.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent company financial statements	
	2020 £	2019 £	2020 £	2019 £
Materiality	111,000	120,400	80,000	89,000
Basis for determining materiality	1.5% of Revenue	1.5% of Revenue	1.5% of Total assets (capped at 72% of Group materiality)	1.5% of Revenue
Rationale for the 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	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	Following the restructure in 2019, the parent company is primarily a holding company. Therefore an asset based materiality is considered appropriate.	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 company.
Performance materiality	83,250	90,300	60,000	66,750
Basis for determining performance materiality	In setting the level of performance materiality we considered a number of factors including the areas of estimation with the financial statements and the type of audit testing to be completed. On this basis performance materiality was set at 75% of Group materiality.		In setting the level of performance materiality we considered a number of factors including the areas of estimation with the financial statements and the type of audit testing to be completed. On this basis performance materiality was set at 75% of parent company materiality	

Component materiality

We set materiality for each component of the Group based on a percentage of between 72% and 76% (2019: 4% to 74%) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £80,000 to £85,000 (2019: £5,000 to £96,000). In the audit of each component, we further applied performance materiality levels of 75% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold
We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £5,500 (2019:£6,020). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report

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.

In the light of the knowledge and understanding of the Group and 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.

Matters on which we are required to report by exception

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, 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.

INDEPENDENT AUDITOR'S REPORT

to the members of Dillistone Group Plc
For the year ended 31 December 2020
Continued

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and Parent Company and determined that these include, but are not limited to, compliance with the Companies Act 2006, accounting standards, AIM rules and the Corporation Tax Act 2010. We identified these areas of laws and regulations as those that could reasonably be expected to have a material effect on the financial statements based on sector experience and discussion with the Directors and other management.
- We assessed compliance with these laws and regulations through enquiry with management and the Audit Committee, review of Board meeting minutes and review of legal invoices and correspondence.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur. In addressing the risk of fraud, including management override of controls, we have performed journals testing on a set of fraud risk criteria and tested to supporting documentation also verifying the business rationale. We also incorporated unpredictability procedures as part of our response to the risk of management override of controls.
- In areas impacting the Group's key performance indicators or management remuneration, we performed audit procedures to address each identified fraud risk, as described in the revenue recognition key audit matter section above
- We also communicated identified relevant laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout our audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available 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 (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK

28 April 2021

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 2020

	Note	2020 £'000	2019 £'000
Revenue	3	6,332	8,027
Cost of sales		(584)	(849)
Gross profit		5,748	7,178
Administrative expenses		(6,569)	(8,268)
Operating loss	6	(821)	(1,090)
Adjusted operating (loss) before acquisition related, reorganisation and other items	2	(166)	(207)
Acquisition related, reorganisation and other items	5	(655)	(883)
Operating (loss)		(821)	(1,090)
Financial cost	8	(93)	(91)
(Loss) before tax		(914)	(1,181)
Tax income	9	251	339
(Loss) for the year		(663)	(842)
Other comprehensive income/(loss)			
Items that will be reclassified subsequently to profit and loss:			
Currency translation differences		12	(16)
Total comprehensive (loss) for the year		**(651)**	**(858)**
Earnings per share			
Basic	10	(3.37)p	(4.28)p
Diluted	10	(3.37)p	(4.28)p

The notes on pages 41 to 75 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	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 2019 Comprehensive income	983	1,631	365	1,687	14	106	63	4,849
Loss for the year	-	-	-	(842)	-	-	-	(842)
Other comprehensive income								
Exchange differences on translation of overseas operations	-	-	-	-	-	-	(16)	(16)
Total comprehensive loss	-	-	-	(842)	-	-	(16)	(858)
Transactions with owners								
Share option charge	-	-	-	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
Comprehensive income								
Loss for the year ended 31 December 2020	-	-	-	(663)	-	-	-	(663)
Other comprehensive income/(loss)								
Exchange differences on translation of overseas operations	-	-	-	-	-	-	12	12
Total comprehensive loss	-	-	-	(663)	-	-	12	(651)
Transactions with owners								
Share option charges	-	-	-	-	-	16	-	16
Total transactions with owners	-	-	-	-	-	16	-	16
Balance at 31 December 2020	983	1,631	365	208	14	110	59	3,370

The notes on pages 41 to 75 are an integral part of these consolidated and company financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	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 2019	983	1,631	365	14	3,829	106	6,928
Comprehensive income							
Total comprehensive income 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
Comprehensive income							
Total comprehensive loss for the year ended 31 December 2020	-	-	-	-	(98)	-	(98)
Transactions with owners							
Share option charge	-	-	-	-	-	16	16
Total transactions with owners	-	-	-	-	-	16	16
Balance at 31 December 2020	983	1,631	365	14	1,913	110	5,016

The notes on pages 41 to 75 are an integral part of these consolidated and company financial statements.

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

As at 31 December 2020

		Group		Company	
	Note	2020 £'000	2019 £'000	2020 £'000	2019 £'000
ASSETS					
Non-current assets					
Goodwill	12	3,415	3,415	-	-
Other intangible assets	13	3,362	4,234	-	-
Property, plant and equipment	14	24	54	-	-
Right to use assets	15	680	754	-	-
Investments	16	-	-	7,168	7,168
Total non-current assets		7,481	8,457	7,168	7,168
Current assets					
Trade and other receivables	17	883	1,222	69	928
Current tax receivable		186	293	-	-
Cash and cash equivalents	19	1,291	690	388	-
Total current assets		2,360	2,205	457	928
Total assets		9,841	10,662	7,625	8,096
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	21	983	983	983	983
Share premium		1,631	1,631	1,631	1,631
Merger reserve		365	365	365	365
Convertible loan reserve		14	14	14	14
Retained earnings		208	871	1,913	2,011
Share option reserve	23	110	94	110	94
Translation reserve		59	47	-	-
Total equity		3,370	4,005	5,016	5,098
Liabilities					
Non-current liabilities					
Trade and other payables	18	271	443	-	-
Lease liabilities	22	638	741	-	-
Borrowings	20	1,749	523	1,749	523
Deferred tax liability	9	296	340	-	-
Total non-current liabilities		2,954	2,047	1,749	523
Current liabilities					
Trade and other payables	18	2,953	3,977	487	1,924
Lease liabilities	22	103	82	-	-
Borrowings	20	461	551	373	551
Total current liabilities		3,517	4,610	860	2,475
Total liabilities		6,471	6,657	2,609	2,998
Total liabilities and equity		9,841	10,662	7,625	8,096

The loss for the financial year for the parent Company was £(98,000) (2019: loss £1,843,000).

The notes on pages 41 to 75 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 28 April 2021. 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 2020

	For the year ended 31 December 2020 £'000	For the year ended 31 December 2020 £'000	For the year ended 31 December 2019 £'000	For the year ended 31 December 2019 £'000
Operating activities				
(Loss) before tax	(914)		(1,181)	
Adjustment for				
Financial cost	93		91	
Depreciation and amortisation	1,984		1,794	
Share option expense	16		14	
Foreign exchange adjustments arising from operations	(28)		(33)	
Operating cash flows before movement in working capital:	1,151		685	
Decrease in receivables	360		282	
Decrease in inventories	-		3	
Decrease in payables	(1,120)		(603)	
Taxation refunded	314		167	
Net cash generated from operating activities		705		534
Investing activities				
Purchases of property, plant and equipment	(2)		(29)	
Sale of Fixed assets	-		2	
Investment in development costs	(969)		(1,070)	
Net cash used in investing activities		(971)		(1,097)
Financing activities				
Interest paid	(84)		(83)	
Proceeds from bank loan	1,500		500	
Bank loan repayments made	(166)		(126)	
Lease payments made	(114)		(49)	
(Repayment)/utilisation of banking facility	(288)		288	
Net cash generated from financing activities		848		530
Net increase/(decrease) in cash and cash equivalents		582		(33)
Cash and cash equivalents at beginning of year		690		725
Effect of foreign exchange rate changes		19		(2)
Cash and cash equivalents at end of year		1,291		690

The notes on pages 41 to 75 are an integral part of these consolidated and company financial statements.

COMPANY CASH FLOW STATEMENT

For the year ended 31 December 2020

	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Operating activities				
(Loss) before tax	(98)		(1,843)	
Adjustment for:				
Financial cost	54		55	
Share option expense	16		15	
Operating cash flows before movements in working capital	(28)		(1,773)	
Decrease in receivables	862		361	
(Decrease)/ increase in payables	(1,447)		829	
Net cash generated from operating activities		(613)		(583)
Investing activities				
Acquisition of subsidiaries	(-)		(18)	
Net cash used in investing activities		(-)		(18)
Financing activities				
Proceeds from bank loan	1,500		500	
Financial cost	(45)		(46)	
Bank loan repayments made	(166)		(126)	
(Repayment)/utilisation of banking facility	(288)		288	
Net cash used in financing activities		1,001		616
Net increase in cash and cash equivalents		388		15
Cash and cash equivalents at beginning of year		(-)		(15)
Cash and cash equivalents at end of year		388		-

The notes on pages 41 to 75 are an integral part of these consolidated and company financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 short 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 £2,451,000 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 2020
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 17.

- 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 £75,000 on gross debtors of £707,000. 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 11. In addition, note 24 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk. The Group prepare budgets and cashflow forecasts to ensure that the Group can meet its liabilities as they fall due.

A degree of doubt still remains with regard to the impact on the Group of the COVID-19 outbreak and the continuing lockdown into 2021 and this has been taken into account in considering the Group's adoption of the going concern basis. The Group has seen many of its clients shrink and with some clients closing and this has been built into the 2021 budgets and subsequent years forecasts. The Group continues to take advantage of the flexible furlough scheme and has secured a second payroll protection loan in the US.

A stress test scenario has been modelled that took £70,000 per month off Revenue from May 2021 has been considered. 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 an overdrawn £212,000 position in November 2021. This would slightly exceed the Group's overdraft of £200,000.

Based on current trading, the stress test scenario is considered remote. However, it is difficult to predict the overall impact and outcome of COVID-19 at this stage, particularly if further lockdowns are required towards the end of 2021. Nevertheless, after making enquiries, and considering the uncertainties described above, 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 2020. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020
Continued

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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020
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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. In the prior year there was more than one cash generating unit and Goodwill was allocated to those cash generating units that were 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 was been allocated were tested for impairment. 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

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.

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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 2020, and as such, the appropriate model is the 12-month ECL model. The implications of this have been disclosed in note 17.

1.15 Financial liabilities

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

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

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

1.16 Convertible loan notes

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

1.17 Investments

Investments in subsidiary companies are included at cost in the accounts of the Company less any amount written off in respect of any impairment in value.

1.18 Leases

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 22.

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 2020
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 Government Grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the statement of comprehensive income within administrative expenses over the period necessary to match them with the costs that they are intended to compensate. See notes 5, 7 and 8 for government support received in the year ended 31 December 2020.

1.25 Accounting standards

At the date of authorisation of these financial statements, the following Standards and Interpretations relevant to the Group operations that have not been applied in these financial statements were in issue but not yet effective:

	Effective date
International Accounting Standards (IAS/IFRS)	
IFRS 3 Business Combinations	1 January 2022
IAS 16 Property, Plant and Equipment	1 January 2022
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	1 January 2022
IAS 1 Presentation of Financial Statements	1 January 2023
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2023

The expected impact of these has not yet been assessed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020
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2. Reconciliation of adjusted profits to consolidated statement of comprehensive income

	Note	Adjusted profits 2020 £'000	Acquisition related, reorganisation and other costs 2020* £'000	2020 £'000	Adjusted profits 2019 £'000	Acquisition related reorganisation and other costs 2019* £'000	2019 £'000
Revenue		6,332	-	6,332	8,027	-	8,027
Cost of sales		(584)	-	(584)	(849)	-	(849)
Gross profit		5,748	-	5,748	7,178	-	7,178
Administrative expenses		(5,914)	(655)	(6,569)	(7,385)	(883)	(8,268)
Operating (loss)		(166)	(655)	(821)	(207)	(883)	(1,090)
Financial income		-	-	-	-	-	-
Financial cost		(93)	-	(93)	(91)	-	(91)
(Loss) before tax		(259)	(655)	(914)	(298)	(883)	(1,181)
Tax income		143	108	251	268	71	339
(Loss) for the year		(116)	(547)	(663)	(30)	(812)	(842)
Other comprehensive loss net of tax:							
Currency translation differences		12	-	12	(16)	-	(16)
Total comprehensive (loss) for the year net of tax		(104)	(547)	(651)	(46)	(812)	(858)
Earnings per share							
Basic	10	(0.59)p	-	(3.37)p	(0.15)p	-	(4.28)p
Diluted	10	(0.59)p	-	(3.37)p	(0.15)p	-	(4.28)p

* See note 5

3. Segment reporting

In 2019, 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. The US business was renamed Ikiru People Inc. These changes came into effect on 31 December 2019. Accordingly, for 2020 onwards, the Group is only reporting one trading segment.

Divisional segments

For the year ended 31 December 2020

	Ikiru People £'000	Central £'000	Total £'000
Segment revenue	6,332	-	6,332
Segment EBITDA pre exceptional	1,211	(43)	1,168
Depreciation and amortisation expense	(1,334)	-	(1,334)
Segment result before reorganisation and other costs	(123)	(43)	(166)
Reorganisation and other costs	(442)	-	(442)
Segment result	(565)	(43)	(608)
Acquisition related amortisation	-	(213)	(213)
Operating (loss)	(565)	(256)	(821)
Loan interest/ lease interest	(39)	(54)	(93)
Loss before tax			(914)
Income tax income			**251**
Loss for the year			**(663)**
Additions of non-current assets	**1,006**		**1,006**

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**	**1,283**	**191**	**-**	**1,920**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020
Continued

Products and services

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

Revenue

	2020 £'000	2019 £'000
Recurring income	5,745	6,593
Non-recurring income	485	1,160
Third party revenues	102	274
	6,332	**8,027**

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 2020 or 2019.

4 Geographical analysis

The following table provides an estimated 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. Previously the revenue was based on billing entity and in 2020 on country of customer.

Revenue

	2020 £'000	2019 £'000
UK	3,717	5,700
Europe	877	928
Americas	1,074	1,034
Australia	295	365
ROW	369	-
	6,332	**8,027**

Non-current assets by geographical location

	2020 £'000	2019 £'000
UK	7,460	8,445
US	20	6
Australia	1	6
	7,481	**8,457**

5. Acquisition related, reorganisation and other costs

	2020 £'000	2019 £'000
Included within administrative expenses:		
Reorganisation and other costs	78	578
Grants received from overseas jurisdictions	(71)	-
Amortisation of acquisition intangibles	213	305
Write-off of capitalised development	435	-
	655	**883**

Reorganisation and other costs include severance payments and loss of office payments. The Write-off of capitalised development relates to a product that is no longer actively sold.

6. Operating loss

	2020 £'000	2019 £'000
Operating loss is stated after charging:		
Depreciation on property, plant and equipment	32	85
Depreciation on Right to use assets	109	118
Amortisation	1,406	1,591
Write-off of capitalised development	435	-
Expenses relating to short-term leases	-	104
Money purchase pension contributions	319	399
Fees receivable by the Group auditors:		
Audit of financial statements	25	56
Other services:		
Audit of accounts of subsidiaries of the Company	60	100
Taxation compliance services	16	22
Other services	3	2

7. Employees

The average number of employees was:

	2020 number	2019 number
Operations	88	99
Management	9	11
Total Employee numbers	**97**	**110**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020
Continued

Their aggregate remuneration including Directors' remuneration comprised:

	2020 £'000	2019 £'000
Wages and salaries	3,743	4,843
Social security costs	371	443
Pension costs	319	399
Share based payments	9	9
LTIP share based	7	5
LTIP non share based	(4)	2
	4,445	**5,701**

The aggregate remuneration includes salary cost totalling £853,000 (2019: £1,021,000) that has been capitalised in intangible assets. In addition, the Group has received the benefit of payments under the furlough scheme of £228,000 (2019: £nil) which has been netted off the above figures.

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

	2020 £'000	2019 £'000
Wages and salaries	724	1,080
Social security costs	91	125
Pension costs	65	107
Share based payments charged	2	1
LTIP share based	4	5
LTIP non share based	(4)	2
	882	**1,320**

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 19 to 21.

8. Financial income and cost

	2020 £'000	2019 £'000
Finance cost on bank overdraft	(7)	(4)
Finance cost on bank loan	(11)	(12)
Finance cost on convertible loan	(33)	(33)
Finance cost on lease liabilities	(38)	(37)
Unwinding of discount on convertible loan	(4)	(5)
Interest on CBIL loan	(35)	-
Grant from UK government to cover CBIL loan interest	35	-
	(93)	**(91)**

9. Tax income

	2020 £'000	2019 £'000
Current tax	(99)	(50)
Prior year adjustment – current tax	(108)	(140)
Total current tax	(207)	(190)
Deferred tax	(123)	(67)
Prior year adjustment – deferred tax	80	(24)
Deferred tax rate change to 19%	40	-
Deferred tax re acquisition intangibles	(41)	(58)
Total deferred tax	(44)	(149)
Tax (income) for the year	(251)	(339)
Factors affecting the tax credit for the year		
Loss before tax	(914)	(1,181)
UK rate of taxation	19.00%	19.00%
Loss before tax multiplied by the UK rate of taxation	(174)	(224)
Effects of:		
Overseas tax rates	1	1
Impact of deferred tax not provided	8	108
Enhanced R&D relief	(143)	(129)
Disallowed expenses	14	43
Deferred tax rate change to 19%	40	8
Rate difference between CT rate and rate of R&D repayment	31	18
Prior year adjustments	(28)	(164)
Tax (income)	(251)	(339)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020
Continued

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

	Group			Company	
	2020 £'000	Movement £'000	2019 £'000	2020 £'000	2019 £'000
Internally generated intangible and fixed assets	135	(25)	160	-	-
Acquisition intangibles	161	(19)	180	-	-
	296	**(44)**	**340**	**-**	**-**

	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**	**-**	**-**

The UK corporation tax rate for the year is 19.00%. Deferred tax is provided in relation to the UK at a rate of 19% (2019:17%). 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 £574,000 (2019: £459,000) for which no deferred tax asset has been recognised as the timing of their utilisation is uncertain.

Factors that may affect future tax charges:

The Chancellor's Spring Budget on 3 March 2021 announced that the UK corporation tax rate is to rise to 25% effective from 1 April 2023. This rate has not yet been enacted and so deferred tax balances continue to be accounted for at the current rate of 19%.

10. Earnings per share

	2020 Using adjusted profit	2020	2019 Using adjusted profit	2019
(Loss) attributable to ordinary shareholders (note 2)	£(116,000)	£(663,000)	£(30,000)	£(842,000)
Weighted average number of shares	19,668,021	19,668,021	19,668,021	19,668,021
Basic (loss) per share	(0.59) pence	(3.37) pence	(0.15) pence	(4.28) pence
Weighted average number of shares after dilution	19,670,013	19,670,013	19,668,021	19,668,021
Fully diluted (loss) per share	(0.59) pence	(3.37) pence	(0.15) pence	(4.28) pence

Reconciliation of basic to diluted average number of shares:

	2020	2019
Weighted average number of shares (basic)	19,668,021	19,668,021
Effect of dilutive potential ordinary shares – employee share plans	1,992	-
Weighted average number of shares after dilution	19,670,013	19,668,021

There are 953,337 (2019: 1,970,005) 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 £(98,000) (2019: loss £1,843,000) and has been approved by the Directors.

12. Goodwill

Group	Goodwill £'000
Cost	
At 1 January 2019	3,415
Additions	-
At 31 December 2019	**3,415**
Additions	**-**
At 31 December 2020	3,415

Carrying amount	
At 31 December 2020	3,415
At 31 December 2019	3,415

At the end of 2019 major reorganisation was carried out and all operations merged into one cash generating unit for Ikiru People (CGU). At the year end date, an impairment test has been undertaken by comparing the recoverable amount of the CGU to which the goodwill has been allocated, against the carrying value of that CGU. The recoverable amount of the cash generating unit is based on value-in-use calculations.

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% (2019: 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 1.0% (2019: 2.0% for all CGUs). The allocation of goodwill to the CGU is as follows:

	Opening £'000	Addition £'000	Impairment £'000	Closing £'000
Ikiru People	3,415	-	-	3,415

Sensitivities

A decrease in the forecast future cashflow by 35% or an increase in the discount rate to 21.75% would reduce the headroom to £nil.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020
Continued

13. Other intangible assets

Group	Development costs £'000	Purchased software £'000	Acquisition intangibles £'000	Total £'000
Cost				
At 1 January 2019	9,416	162	4,172	13,750
Additions	1,067	4	-	1,071
At 31 December 2019	10,483	166	4,172	14,821
Additions	969	-	-	969
Written off	(976)	-	-	(976)
At 31 December 2020	**10,476**	**166**	**4,172**	**14,814**
Amortisation				
At 1 January 2019	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
Charge for the year	1,138	55	213	1,406
Written off	(541)	-	-	(541)
At 31 December 2020	**8,025**	**102**	**3,325**	**11,452**
Carrying amount				
At 31 December 2020	**2,451**	**64**	**847**	**3,362**
At 31 December 2019	3,055	119	1,060	4,234

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 2020	**87**	**82**	**399**	**492**	**1,060**
Amortisation	(13)	(27)	(41)	(132)	(213)
At 31 December 2020	**74**	**55**	**358**	**360**	**847**

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 2019	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
Currency impact	-	(2)	-	(2)
Additions	-	2	-	2
At 31 December 2020	**-**	**927**	**176**	**1,103**
Depreciation				
At 1 January 2019	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
Currency impact	-	(2)	(-)	(2)
Charge for the year	-	28	4	32
At 31 December 2020	**-**	**908**	**171**	**1,079**
Carrying amount				
At 31 December 2020	**-**	**19**	**5**	**24**
At 31 December 2019	-	45	9	54

The Company has no property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020
Continued

15. Right of use assets

Group	Land and buildings £'000	Office & computer equipment £'000	Total £'000
Cost			
At 1 January 2019	51	-	51
Additions	791	30	821
At 31 December 2019	842	30	872
Currency impact	(2)	-	(2)
Additions	35	-	35
Disposals	(49)	-	(49)
At 31 December 2020	**826**	**30**	**856**
Depreciation			
At 1 January 2019	-	-	-
Charge for the year	114	4	118
At 31 December 2019	114	4	118
Currency impact	(2)	-	(2)
Charge for the year	99	10	109
Eliminated on disposal	(49)	-	(49)
At 31 December 2020	**162**	**14**	**176**
Carrying amount			
At 31 December 2020	**664**	**16**	**680**
At 31 December 2019	728	26	754

16. Non-current asset investments

Company	Investments in subsidiaries £'000
At 1 January 2019	7,151
Transfer from subsidiaries	17
At 31 December 2019	7,168
Impairment	-
At 31 December 2020	**7,168**

Investments are shown at cost less impairments. 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 2019, 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. Accordingly, for 2020 onwards, the group is only reporting one trading segment and the investments in the individual subsidiaries have effectively been combined. In view of the reorganisation and the losses generated, the investment in subsidiaries has been reviewed for impairment.

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 cash flow projections for the combined business cover a three 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% (2019: 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 1.0% (2019: 2.0%).

The calculations showed the discount rate would need to be increased to over 20% or the cashflow reduced by greater than 30% before an impairment became 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	Dormant from 31 December 2019	100%	England & Wales
FCP Internet Holdings Limited	Dormant holding company	100%	England & Wales
GatedTalent Limited	Dormant from 31 December 2019	100%	England & Wales
ISV Software Limited	Dormant from 31 December 2019	100%	England & Wales
Woodcote Software Limited	Dormant company	100%	England & Wales
Voyager Software Limited	Dormant from 31 December 2019	100%	England & Wales
Voyager Software (Australia) Pty Limited	Dormant from 31 December 2019	100%	Australia

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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. Trade and other receivables

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Trade receivables - net	632	1,000	-	-
Group receivables	-	-	48	913
Other current assets	45	19	3	-
Prepayments and accrued income	206	203	18	15
	883	**1,222**	**69**	**928**

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	604	59	13	31	707
Loss Allowance Provision	54	8	3	10	75
Expected Loss Rate	*9%*	*14%*	*22%*	*31%*	

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

	£'000
Balance as at 1 January 2019	71
Increase during the year	11
Balance as at 31 December 2019	82
Decrease during the year	(7)
Balance as at 31 December 2020	**75**

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

	2020 £'000	2019 £'000
Current	604	679
Past due date:		
Up to 30 days overdue	59	248
More than 30 days overdue	44	155
Total	**707**	**1,082**

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

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

18. Trade and other payables

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Current liabilities				
Trade payables	515	661	47	107
Group payables	-	-	268	1,519
Deferred income	1,758	2,430	-	-
Accruals	680	886	172	297
	2,953	**3,977**	**487**	**1,923**

Non-current liabilities	**£'000**	**£'000**	**£'000**	**£'000**
Deferred Income	271	443	-	-

The deferred income in 2020 and 2019 represents the entire balance of contract liabilities from contracts with customers. The movement on this balance is recognised as revenue in the reporting period.

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19. Cash and cash equivalents

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Cash balances available on demand	1,291	690	388	-

The balances are shown gross before netting off as allowed by the Group's bank overdraft facility. In 2019 there was a negative balance on UK accounts of £0.288m which would give a net cash balance of £0.402m.

20. Borrowings

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Current bank borrowings	452	534	364	534
Current loan note borrowings	9	17	9	17
Non current bank borrowings	1,350	128	1,350	128
Non current loan note borrowings	399	395	399	395
Total borrowings	**2,210**	**1,074**	**2,122**	**1,074**

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

In April 2020, the Group obtained a loan under the US Government's payroll protection plan of $120,000. This loan has been included in current bank borrowings on the expectation that it will be written off in 2021.

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.

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 (2019: 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	2019 £'000	Cashflows £'000	Lease adjustments – £'000	Non cash changes – interest adjustment £'000	Non cash Movement between current and non current £'000	Closing 2020 £'000
Non current borrowings						
Bank Loan	128	1,500	-	-	(278)	1,350
Convertible loan note	395	-	-	4	-	399
Lease liabilities	741	-	32	-	(135)	638
Total non current borrowings	**1,264**	**1,500**	**32**	**4**	**(413)**	**2,387**
Current borrowings						
Banking facility	288	(288)	-	-	-	-
Bank Loan	246	(172)	-	11	278	363
Convertible loan note	17	(41)	-	33	-	9
Lease liabilities	82	(152)	-	38	135	103
Total current borrowings	**633**	**(653)**	**-**	**82**	**413**	**475**

	2018 £'000	Cashflows £'000	Lease adjustments – £'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**

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For the year ended 31 December 2020
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21. Share capital

Allotted, called up and fully paid	2020 £'000	2019 £'000
Ordinary shares of 5p each	983	983

No share options were exercised in the period (2019: nil).

Shares issued and fully paid	2020 Number	2019 Number
Beginning of the year	19,668,021	19,668,021
Shares issued on exercise of options	-	-
Shares issued and fully paid	19,668,021	19,668,021

22. Lease arrangements

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:

	2020 £'000	2019 £'000
Less than one year	137	125
One to five years	424	554
More than five years	338	408
	899	1,087

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.

23. Share options

Share based payments

There are three share option schemes in operation: an Enterprise Management Incentive Scheme (the 'EMI Scheme') which complies with the requirements of HMRC; a scheme which has not been approved by HMRC (the 'Unapproved Scheme') and a Share Save Scheme ("SAYE Scheme"). The terms and conditions of the EMI and Unapproved schemes are the same. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are normally forfeited if the employee leaves the Company before the options become available to exercise, which would normally be three years after grant. Performance conditions are associated with the LTIP options. The Company also operates a SAYE scheme which allows discounts of up to 20% to 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 was one grant of options in 2020 relating to a grant under the SAYE scheme in November 2020. The share price of this grant was 14.4p. 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
26 Nov 2020 SAYE	353,000	16p	14.4p	45%	3.3 years	15%	1.00%	0.5%
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:

	2020		2019	
	No of options	WAEP	No of options	WAEP
Outstanding at the beginning of year	1,970,005	56.33	1,975,561	69.40
Granted during the year	353,000	14.4	580,000	33.00
Exercised during the year	-	-	-	-
Forfeited during the year	(1,016,668)	58.07	(585,556)	77.32
Outstanding at the end of the year	1,306,337	43.65	1,970,005	56.33
Exercisable at the year end	453,337	78.16	408,772	86.81

The Company's mid-market share price on 31 December 2020 was 16.0p. The average mid- market share price in 2020 was 19.55p.

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 £16,000 (2019: £14,000).

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	7,000	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
EMI	09/11/2017	09/11/2020	08/11/2027	60,000	58.00
Sharesave	09/11/2017	01/12/2020	31/05/2021	90,337	52.20
EMI (LTIP)	03/07/2019	03/07/2022	02/07/2029	370,000	33.00
EMI	03/07/2019	03/07/2022	02/07/2029	130,000	33.00
Sharesave	26/11/2020	01/01/2024	01/07/2024	353,000	14.40
				1,306,337	

The weighted average remaining contractual life of options at 31 December 2020 was 5.22 years (2019: 7.03 years).

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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 2020, the charge in respect of the LTIP schemes, which are share based and require separate disclosure under IFRS 2, was £7,000 (2019: credit £5,000).

24. Financial instruments

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

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

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

(i) Interest rate risk

The Group is exposed to interest rate risk on its floating rate borrowings and its financial assets. The interest rate profile of the Group's financial assets at 31 December 2020 was:

At 31 December 2020	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)	677	-	51	-
Cash and cash equivalents	-	1,291	-	388
Total	**677**	**1,291**	**51**	**388**

The interest rate profile of the Group's financial assets at 31 December 2019 was:

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

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.

31 December 2020	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)	839	-	464	-
Trade and other payables (non-current liabilities)	-	-	-	-
Borrowings – convertible loan note	-	409	-	409
Borrowings - bank	-	1,802	-	1,802
	839	**2,211**	**464**	**2,211**

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**

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 17). Once the Group has determined that there is no reasonable expectation of recovery, the relevant trade receivable balances are written off against the loss allowance provision. Indicators that recovery cannot reasonably be expected include the conclusion of legal proceedings or 3rd-party debt collection without full recovery.

Historically, the cash collection profile has been very good. Debt ageing and collections are monitored on a regular basis and for new customers deposits are usually required. Some trade receivables are past due as at the reporting date. The company bases its provisions on trade receivable balances based on the expected credit loss model ('ECL') as required by IFRS. Information on financial assets past due are included in note 17. The Group has considered the ongoing 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	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Trade and other receivables (current assets)	677	1,019	51	913
Cash and cash equivalents	1,291	690	388	-
Total	**1,968**	**1,709**	**439**	**913**

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

(iii) Liquidity risk

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

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As at 31 December 2020, the Group and Company's financial liabilities (excluding deferred income, payroll taxes, VAT and similar taxes) have contractual cashflows as summarised below:

Group **31 December 2020**	Carrying amount £'000	< 1 year £'000	1-2 years £'000	2-5 years £'000	>5 years £'000
Trade and other payables (current liabilities)	839	839	-	-	-
Trade and other payables (non-current liabilities)	-	-	-	-	-
Borrowings	2,211	461	300	900	550
Bank facility	-	-	-	-	-
	3,050	**1,300**	**300**	**900**	**550**

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**	**-**

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

Company **31 December 2020**	Carrying amount £'000	< 1 year £'000	1-2 years £'000	2-5 years £'000	>5 years £'000
Trade and other payables (current liabilities)	464	464	-	-	-
Trade and other payables (non-current liabilities)	-	-	-	-	-
Borrowings	2,211	461	300	900	550
Bank overdraft	-	-	-	-	-
	2,675	**925**	**300**	**900**	**550**

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**	**-**

(iv) Foreign currency risk

T 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 £187,000 and liabilities totalling £4,000 denominated in Euros (2019: assets totalling £291,000 and liabilities totalling £371,000), assets totalling £537,000 and liabilities totalling £336,000 denominated in US Dollars (2019: assets totalling £996,000 and liabilities totalling £922,000) and assets totalling £585,000 and liabilities totalling £634,000 denominated in Australian Dollars (2019: assets totalling £491,000 and liabilities totalling £550,000).

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

	Group	
	2020 £'000	2019 £'000
Euros	22	23
US Dollars	13	1
Australian Dollars	8	(1)
	43	**23**

At the year end, the Company had liabilities totalling £nil denominated in Euros (2019: liabilities totalling £116,000), assets totalling £8,000 denominated in US Dollars (2019: assets totalling £289,000) and assets totalling £26,000 denominated in Australian Dollars (2019: assets totalling £46,000).

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	
	2020 £'000	2019 £'000
Euros	-	(6)
US Dollars	-	15
Australian Dollars	1	3
	1	**12**

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	2020 £'000	2019 £'000
Total borrowings	20	2,211	1,074
Less cash or cash equivalents		(1,291)	(690)
Net borrowings		**920**	**384**
Total equity		3,370	4,005
Total capital gearing ratio		27.3%	9.6%

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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	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Loans and receivables				
Cash and cash equivalents	1,291	690	388	-
Trade and other receivables	677	1,019	51	913
	1,968	**1,709**	**439**	**913**
Financial liabilities held at amortised cost				
Trade and other payables	839	1,200	464	1,902
Borrowings	408	412	408	412
Bank borrowings	1,802	662	1,802	662
	3,049	**2,274**	**2,674**	**2,976**

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.

25. Subsequent events

The Group granted options over 500,000 Ordinary Shares on 10 February 2021 to certain of its Directors and other members of staff with an exercise price of 22p per share. Of these options 450,000 were granted, exercisable within 3 to 10 years but subject to performance conditions, to six Directors and other senior managers under the Company's LTIP scheme.

26. Control

No individual Shareholder, or Shareholders acting in concert, hold more than 50% of voting shares, and accordingly there is not considered to be an 'ultimate controlling party'.

27. Related party transactions

Group

The Directors received dividends paid by the Company of £nil (2019: £nil).

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 £nil (2019: £7,000).

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
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.

The Company received a management charge of £91,000 (2019: £nil) from Ikiru People Inc and at the year end was owed £8,000 (2019: owed £289,000).

During the current year Ikiru People Limited paid and a management charge of £691,000 (2019: £184,000) to Dillistone Group Plc. At the year end Ikiru People Limited was owed £266,000 (2019: £1,090,000).

The Company received a management charge of £45,000 (2019: £nil) from Ikiru People Pty Limited and was owed £26,000 (2019: £46,000) at the year end.

Voyager Software owed the Company £nil at the year end (2019: £82,000) and paid a management charge of £nil (2019: £144,000).

FCP Internet Limited was owed by the Company £nil at the year end (2019: £421,000) and paid a management charge of £nil (2019: £84,000).

At the year end the Company owed ISV £nil (2019: £7,000) and ISV paid a management charge of £nil (2019: £60,000).

GatedTalent Limited owed the Company £nil at the year end (2019: £475,000) and paid a management charge of £nil (2019: £65,000). The Company wrote off amounts due from GatedTalent of £nil during the year (2019: £1,450,000).

FCP Internet Holdings Limited was owed by the Company £2,000 at the year end (2019: owed by the Company £2,000).

Woodcote Software Limited owed the Company £13,000 (2019: £13,000).

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

28. Dividends

No dividends were paid in 2020 and 2019. No final dividend in respect of the year ended 31 December 2020 is proposed.

DIRECTORS AND ADVISERS

Directors	G R Fearnley Non-Executive Chairman 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 S Hammond – Chief Engineering Officer
Secretary	J P Pomeroy
Company number	4578125
Registered office	12 Cedarwood, Crockford Lane, Chineham Business Park, Basingstoke, RG24 8WD
Independent auditor	BDO LLP 55 Baker Street London W1U 7EU
Principal bankers	HSBC Bank Plc Basingstoke Commercial Centre 8 London Street Basingstoke RG21 7NU
Solicitors	Blake Morgan LLP Apex Plaza Forbury Road Reading RG1 1AX
Nominated adviser	WH Ireland Limited 24 Martin Lane London EC4R 0DR
Broker	WH Ireland Limited 24 Martin Lane London EC4R 0DR
Registrars	Link Group 10th Floor Central Square 29 Wellington Street Leeds LS1 4DL

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