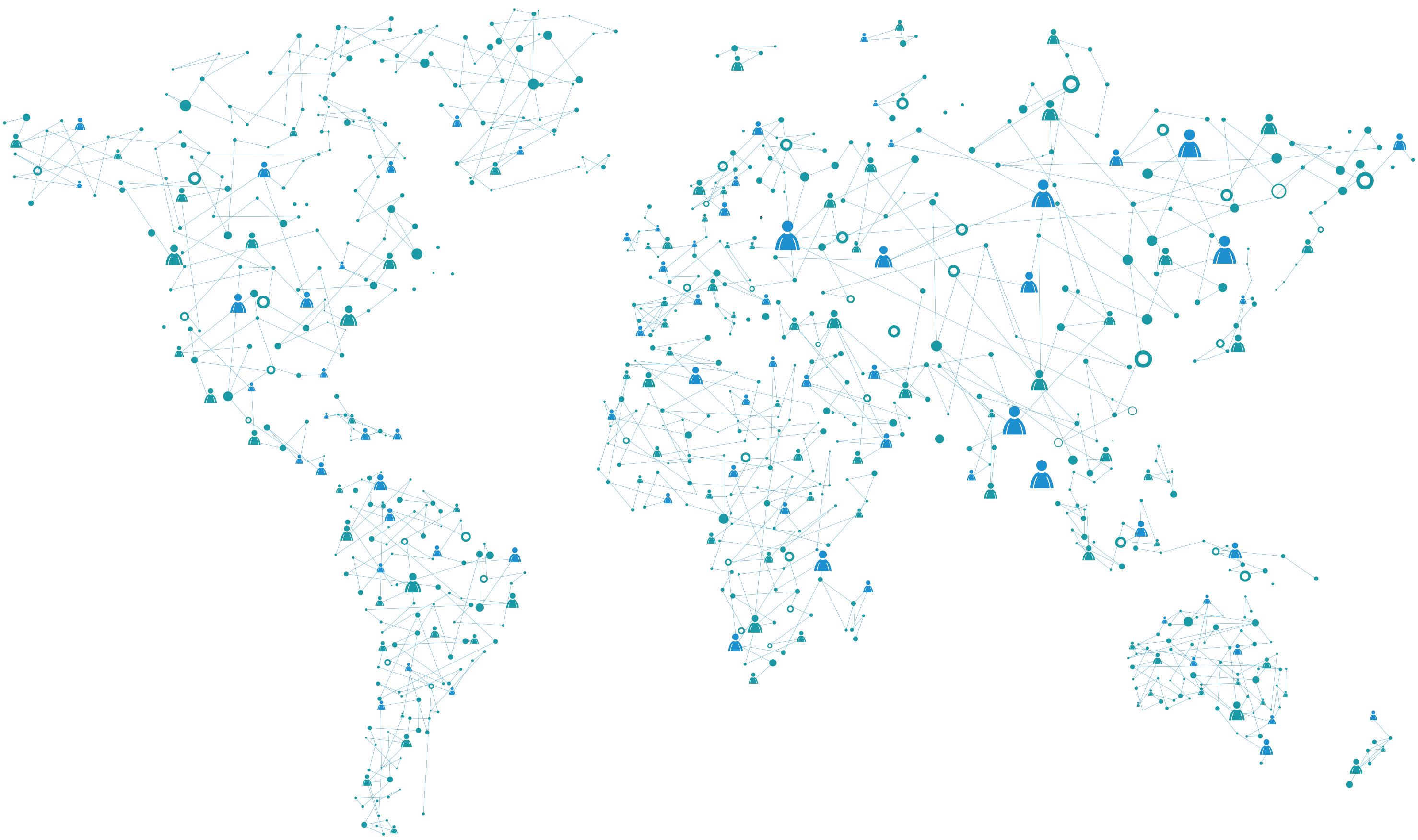
# ANNUAL REPORT 2021

DSG
Dillistone Group Plc

FOR THE YEAR ENDED 31 DECEMBER 2021



Company Registration No. 4578125 (England and Wales)

ANNUAL REPORT **2021**

# DILLISTONE GROUP PLC
## POWERING RECRUITMENT

Operating in more than 50 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. During that time, 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.

## Contents

# HIGHLIGHTS

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

- Performance ahead of expectations
  - Revenue £5.6m (2020: £6.3m)
  - Incoming orders up 18% in 2021 compared to 2020
  - EBITDA[1] £1.0m (2020: £1.2m)
  - Group returns to breakeven for the year (2020: £0.7m loss)
  - Net debt £1.0m (2020: £0.9m)
  - Cash at year end was £0.8m (2020: £1.3m)
- Recurring revenues[2] represent 89% (2020: 91%) of Group revenue
- Secured largest new Group client since the restructuring of the business in January 2020
- Continued product development expenditure supporting strong start to 2022
- Talentis showing strong momentum going into 2022

Definitions:

[1] Amounts based on segment EBITDA figures – see note 3

[2] The component elements of recurring revenue are detailed in note 3.

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

"In my interim statement I highlighted that in our business, where a large part of our revenue is contracted annually in advance, the impact of Covid would be felt throughout the remainder of 2021. This proved to be the case as recurring revenue decreased by 13% to £5.0m (89% of Group revenue (2020: 91%)) however we saw an uplift in orders in Q4 to pre-pandemic levels.

"The current year has begun well following on from the strong finish to 2021. Growth in new business sales is helping us recover recurring revenue lost during the pandemic and, while we are conscious of the potential impact of ongoing economic turbulence, we are confident that the Group is well on the way to recovery, with positive signs across our entire product range and an exciting opportunity opening up with our new Talentis product."

# DILLISTONE GROUP AT A GLANCE

IKIRU PEOPLE

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 50 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. During that time, 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 an executive search CRM used by recruiting teams at major corporations and executive search firms worldwide.

### GatedTalent
GatedTalent helps recruiters and executives connect. From a recruiter perspective, it provides an extensive search function and GDPR support, while offering candidates increased recruiter visibility.

### ISV.online
ISV.online offers online skills testing, working with recruiters, consultancies and employers to help them secure and retain the best talent. ISV works with many of the UK's largest recruiting businesses.

### Voyager
Voyager Infinity is an easy-to-use, all-in-one solution that streamlines the recruitment processes for all types of permanent, contract and temporary positions automating administrative tasks to make businesses more efficient, customer-centric and competitive. Voyager Mid-Office is an automated way of managing placements, processing timesheets, raising invoices, paying staff and updating accounts packages.

### Talentis Global
Talentis is the next generation of executive search, recruiting and candidate 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 world.

# CHAIRMAN'S STATEMENT

For the year ended 31 December 2021

After a challenging few years for the business, I am pleased to report a year of progress and improvement, along with a sense that the business is in a position to progress further in 2022.

In my interim statement I highlighted that in our business, where a large part of our revenue is contracted annually in advance, the impact of Covid would be felt throughout the remainder of 2021. This proved to be the case, however we saw an uplift in orders in Q4 2021 to pre-pandemic levels.

Total revenue for the year was down 12% to £5.599m, with recurring revenue falling 13% to £5.009m. There was an adjusted operating loss in 2021 of £0.140m (2020: loss £0.166m) before acquisition related and other costs. Administration costs reduced by 14% excluding acquisition related items and other costs, depreciation and amortisation. The operating loss, including reorganisation and acquisition related items, was £0.199m (2020: loss £0.821m).

We maintained our investment in product development at £0.987m (2020: £0.969m) which we view as key to the future growth of the Group. January 2021 saw the launch of Talentis (https://www.talentis.global/recruitment-software/insights/). After a slow start, Talentis is now growing rapidly and the Group is excited by the opportunity that it presents.

In June 2021 we made the final payment of the 2 year bank loan that was secured in June 2019 and the following month we commenced monthly payments on the Government CBIL loan that we secured in June 2020 and which had a 12 month grace period for capital repayments.

## Dividends

The Group is not recommending a final dividend in respect of the year to 31 December 2021 (2020: nil).

## Staff

I and the Board would like to pay tribute to our employees across the Group, acknowledging their commitment and contribution in facing the challenges of the last 12 months. They have risen to these challenges and continued 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.

During the year in review, we welcomed Steve Hammond to the Group Board in January 2021 and Joanne Curd in October. Steve joined as the Chief Engineering Officer for the Group with responsibility for the development of all group products. Joanne became our Chief Financial Officer replacing Julie Pomeroy who moved to a Non-executive Director role for 12 months, enabling us to continue to benefit from her expertise. I would also like to thank Alex James who stepped down from the Board in September having contributed extensively to the business over very many years.

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 current year has begun well following on from the strong finish to 2021.

Compared to the same period to 31 March in 2021, Q1 2022 incoming orders are up by 41%, with all products performing broadly in line with, or better than management expectations.

Our contingency recruiting products have enjoyed a strong start, driven by increasingly strong performance by our Infinity product, which is proving to be especially successful in the UK temporary recruitment sector.

In late 2021, we announced our largest new contract win since the Group's restructuring, and we are pleased to announce that this implementation of Infinity is now live and performing well.

Our executive search products, Talentis, FileFinder and GatedTalent, have also enjoyed a strong start to the year. Talentis was launched in early 2021 and, after a slow start, started to grow rapidly in the final weeks of 2021. While recurring revenue reflects the slow start, we are pleased to report that recurring revenue associated with the product is currently doubling every three months, and is comfortably on track to maintain this into Q2 2022. Driven by Talentis sales, March 2022 was, in terms of the number of new executive search firm contract wins, the Group's best ever month, beating the previous best of March 2010. While the majority of clients are small, the Group expects this to change over time. While growing rapidly, annualised recurring Talentis revenue is currently in mid five figures.

The Group continues to operate with a much lower cost base and as revenues recover, the improved operational leverage, following the efficiencies realised, will be reflected in overall performance. The Group is trading in line with market expectations, holding £0.764m in cash as at 31 December 2021 and does not expect to raise additional funds.

Taking the above into account, the Board is optimistic for the future and will issue a further update at the time of the AGM.

**Giles Fearnley**
Non-Executive Chairman
25 April 2022

# CEO'S REVIEW

For the year ended 31 December 2021

Dillistone Group Plc is a global leader in the supply of solutions and services to the recruitment sector worldwide, in both contingency recruitment and executive search.

## Contingency Recruitment Sector:

In the contingency recruitment sector, our products are primarily, but not exclusively, used by UK recruitment agencies. Our products serving this sector are:

- ISV.Online is an online skills testing product used by both recruitment agencies and corporate recruiters and has a strong international footprint. It allows recruiters and HR professionals to test individuals using our extensive portfolio of existing tests or to create their own unique tests to meet their requirements.
- MidOffice is a comprehensive pay & bill solution that allows recruitment businesses and back office service providers to process timesheets and bridges the gap between paying workers and invoicing clients. It can be used standalone or integrated to other recruitment systems including our Infinity product.
- Infinity is an established recruitment CRM used primarily by agencies in the UK, but also with users in Asia and Australia. It enables recruitment businesses to manage prospects, clients, candidates and jobs in one place and offers deep integration to Office365 and other recruitment industry complementary solutions. It is one of the few solutions in the UK market with extensive functionality for permanent, contract and temporary jobs all in one system.

During 2021

- We continued our ongoing investment in Infinity to give users in all recruiting sectors additional benefits including: more comprehensive application programming interfaces (APIs), more features to support remote recruitment, improved security and further efficiencies in the temporary recruitment workflows.
- December 2021 saw us win our largest new Infinity client since the restructuring of the business in January 2020. The implementation has been delivered successfully in 2022.
- Mid-Office is also furthering the temporary recruitment efficiencies we've added to Infinity by taking these all the way through to the pay and bill system and into the back office.
- ISV remains in its strong market position and is used by over half of the UK's top 10 recruitment agencies. There is strong retention among key accounts with significant multiple year renewals and an increased number of new client wins.

## Executive Search Sector:

Our primary products in the Executive Search sector are

- FileFinder is an established CRM product with thousands of users Worldwide.
- GatedTalent is a service that helps recruiters source candidates and candidates find jobs and;
- Talentis, our new product launched in January 2021.

During 2021 we maintained our commitment to development and product enhancement.

- FileFinder: there has been a major project to move FileFinder to a pure Cloud environment which is now live, with the majority of our users serviced from the new platform. User benefits include significant speed gains, while the Group benefits from reduced hosting cost.

  Costs are inflated in 2021 as the Group operated two platforms, continuing into early 2022 but at a reduced scale with only a small number of clients remaining on the older platform awaiting transfer.
- GatedTalent: extension of our service offering to include additional B2C services including interview coaching. After a slow start, GatedTalent is now cash generative and making a consistent contribution.
- Talentis is a next generation executive search / sourcing and recruiting platform, announced in January 2021, with first revenue in May 2021, and strong momentum going into 2022:
  - The Talentis TalentGraph now contains information on almost 250 million potential candidates. For certain types of search, Talentis delivers far superior search results through its Augmented Keyword Search technology than current market alternatives.
  - Most of Talentis' early adopters were existing group clients paying a nominal fee or, in many cases, receiving the product for free. As a result, while we received our first revenue in May 2021, the product experienced a slow start.
  - The slow start means that Talentis annual recurring revenue is currently in the mid five figures. However, realised recurring revenue has doubled every three months since launch, with particular acceleration since late Q4 2021. This acceleration appears on track to continue into Q2 of 2022.
  - Talentis became our most popular B2B product in the executive search space in Q4 2021, based on the number of new client wins in the period. In Q1 2022, it became our most popular B2B product across our entire product set based on the same definition.

# CEO'S REVIEW
Continued

- Most paying customers are relatively small and are paying a modest subscription fee. However, customer size and subscription value are both expected to grow as the year progresses.
- Talentis has attracted new, paying customers to the Group from 14 countries across 4 continents. The United Kingdom and United States are currently our two largest markets for the product.
- In April 2022, we were pleased to see that the Talentis Chrome Extension was the first executive search focussed product (and one of very few recruitment tools) to receive a "featured" accreditation from Google. "Featured badges" are awarded by Google following a human review to products that "follow Google's technical best practices and meet the company's higher standard for user experience and design"

## Strategy and Objectives

Our focus during the pandemic revolved around successfully protecting our business while helping our clients and our staff through challenging times. We can now concentrate on our long term strategy which is all about returning to growth. While cost savings were made during the pandemic, we maintained our product development expenditure and targeted it on growth opportunities.

This will be achieved by:

- Focusing on development expenditures on products serving the executive recruiter sector globally and the contingent recruiting (permanent, temporary and contract) sector.
- Having completed the withdrawal of Evolve from the market in 2019-20, we are in the process of withdrawing a further legacy product from the market, which will complete be in 2022.
- Consistently delivering "best in class" service to our clients, as demonstrated by sector leading Trustpilot scores, despite significant cost savings in recent years.
- Refreshing and reducing the size of the Board.

Whilst we have seen growing confidence in the recruitment markets around the world, the global economic challenges that 2022 may bring means that we need to remain focused and responsive to any factors that may hamper the business from returning to growth and profitability.

## Key Performance Indicators (KPIs)

The key KPIs for 2021 were:

| KPI | 2021 outcome |
|---|---|
| Maintain a strong and stable financial position | £0.764m cash at year end |
| Protect and prioritise our product and development efforts | £0.987m development spend in year |

## Group review of the business

Recurring revenues fell by 13% to £5.009m in 2021 (2020: £5.745m) reflecting the continued unwind of the Covid-19 impact, although recurring revenue in the second half of the year was only down 8% on prior year. Incoming orders have increased by 18% in 2021 compared to 2020, with Q4 being the strongest quarter for incoming business in the previous 2 years. Non-recurring revenues also fell by 12% to £0.427m (2020: £0.485m). As a result, overall revenues decreased by 12% to £5.599m (2020: £6.332m) with recurring revenues representing 89% of Group revenues (2020: 91%). Cost of sales increased by 17% to £0.685m (2020: £0.584m) due to the running of two hosting platforms, continuing into 2022 but on a smaller scale.

Adjusted EBITDA[1] reduced by 16% to £0.982m (2020: £1.168m). There was an adjusted operating loss of £0.140m (2020: loss £0.166m) and there was a pre-tax loss before acquisition related items and reorganisation and other adjustments of £0.240m (2020: loss £0.259m). The operating loss for the year reduced to £0.199m (2020: loss £0.821m) with reorganisation, other income and other costs totalling £0.154m income (2020: cost £0.442m) and acquisition related amortisation of £0.213m (2020: £0.213m). The profit for the year was £0.004m (2020: loss £0.663m). Cash at the year-end was £0.764m (2020: £1.291m).

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

### 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 no items fall into this category for 2021.

## 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 CBIL loan, floating rate overdraft, and 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. Accordingly, the Group does not believe it is exposed to significant credit risk.

### Exchange risk

The Group is exposed to translation and transaction foreign exchange risk. The Group's foreign operations primarily trade in their own currencies, reducing the transaction risk. As a result, the main foreign exchange 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 significantly impact revenue. | The Company has a global customer base and so is not entirely reliant on one economy. It enjoys a high percentage of recurring revenues.<br>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.<br>In addition the skills testing market has held steady during the recent downturn.<br>Innovation and new products help maintain opportunities for the business world-wide. |
| **Software development risk** | All software suppliers must create new applications and/or enhance and create new features to existing software applications.<br>There is always a risk with any new development that it does not function as expected which could damage the Group's reputation, result in loss of new orders and therefore reduce revenue growth, or claims against the Group.<br>The cost and time for developing new software could be a bigger drain on resource than budgeted. | Software is tested before release.<br>Release strategies employed to minimise risk.<br>Agile software development methodology used for all development so stakeholders have real-time visibility and influence throughout the whole development cycle. |
| **Ability to source new or retain existing talent** | The Group is reliant upon specialist skills and knowledge, especially within Development. It may not be possible to attract or retain suitably skilled and/or knowledgeable individuals.<br>Revenue generation or delivery is partially dependent on a few key individuals. | Look more broadly about where we recruit staff from, allowing remote working and outsourcing.<br>Continuous individual development, with learning, group activities, and technical growth plans.<br>Appropriate, fair, and comparable industry salaries and benefits including notice periods.<br>Long term plans to consolidate operations, techniques and to utilise more common development methodologies for new products increase the pool of knowledge within the Group. |

| Risk | Potential adverse impact | Mitigation |
|---|---|---|
| **Competitor activity** | Some competitors offer a more specialised product range enabling them to compete in niche markets.<br>The Group can easily lose market share if its products are not well regarded either from being "out of date" or "buggy".<br>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.<br>The Group continues to invest in its product development and 2021 saw the continued development of temporary functionality as well as other functions such as an open API to Infinity. ISV.Online received several product updates and FileFinder underwent a major transition to MS Azure based SaaS delivery along with end user efficiency enhancements.<br>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 recruiters to track and engage with potential candidates across the web.<br>The Group continues to look to develop further new products and additional features. |
| **Business continuity risks associated with information systems, operational failure and data security including cyber security threats** | A failure of systems or failure of hosting facilities leading to loss of customer confidence in the Group being able to deliver their requirements.<br>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.<br>External attacks on servers could result in lost or corrupted data and loss of reputation. | The Group leverages modern data centres provided by third parties.<br>Plans are regularly reviewed on how to improve data centre management.<br>Data backups occur at least daily and the necessary tests carried out on a regular basis to ensure data can be restored.<br>Penetration & application vulnerability testing helps minimise the risk of attacks.<br>Regular review of Group wide infrastructure to improve cyber defences both locally and at data centres.<br>The Information Security Committee meets monthly to review appropriate risks and strategies. |
| **Management capacity** | As the business grows there may be insufficient management capacity to ensure that the growth is effectively managed and integrated. | One of the key purposes of the major restructuring in 2019/2020 was to become more efficient and consolidate the management of the business. This has been achieved. |
| **Data protection legislation** | Ensure that the Group and its products comply with relevant 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.<br>A senior member of the executive team has GDPR practitioner certificate. An appropriate internal committee established (ISC). Data Protection Officer ('DPO') is appointed.<br>The ISC is kept aware of relevant legislation changes in appropriate regions and can recommend adaptations to products/operating policies to suit.<br>The Group maintains appropriate Cyber and Data insurance for its operations. |
| **Dependency on critical suppliers** | The Group is reliant on a key suppliers and products.<br>Certain suppliers and products failure could impact business. | Monitor dependency on key suppliers and continue to diversify data content to minimise dependency using specialist outsourcing partners.<br>Where possible identify alternative suppliers or dual source. |

# CEO'S REVIEW
Continued

## Principal risks and uncertainties
Continued

| Risk | Potential adverse impact | Mitigation |
|---|---|---|
| **Financial performance including going concern** | The Group needs sufficient cash to ensure it can continue to invest in its products in the coming years as part of the core business and for future growth.<br>The worldwide spread of the Covid-19 virus and subsequent impacts on people and businesses around the World creates unique risks for all businesses.<br>Inflationary pressures make it difficult for customers to plan and budget for their spend impacting revenue, whilst costs increase. | The Group actively monitors the impact of external influences on its business.<br>The Group obtained a loan of £1.5m through the Government's Covid Business Interruption Loan scheme in June 2020. It has also taken advantage of other available loans and grants in the territories it operates.<br>We have a good relationship with our bank which would enable us to seek to extend our banking facility if required.<br>Contracts allow us to increase prices in line with inflation. |

# FINANCIAL REVIEW

For the year ended 31 December 2021

Total revenues decreased by 12% to £5.599m in 2021 (2020: £6.332m) with recurring revenues decreasing by 13% to £5.009m (2020: £5.745m) and non-recurring revenues by 12% to £0.427m (2020: £0.485m). Third party revenue amounted to £0.163m in the period (2020: £0.102m).

Cost of sales increased to £0.685m (2020: £0.584m). Administrative expenses reduced by 22% to £5.113m (2020: £6.569m), and were covered 127% (2020: 125%) by recurring revenues. This was in part due to the full year impact of the 2020 cost base reductions.

Depreciation and amortisation (excluding acquisition related amortisation and one-off write-offs) decreased to £1.122m (2020: £1.334m).

Acquisition related and other costs totalled £0.059m (2020: £0.655m) and were in respect of:

- the amortisation of intangibles arising from acquisitions £0.213m (2020: £0.213m).
- grants received from overseas £0.160m (2020: £0.071m)
- other costs of £0.006m (2020: £0.513m)

The Group benefitted from an income tax credit in 2021 of £0.302m (2020: credit £0.251m). The 2021 credit reflects the Research and Development (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 £0.181m as the tax computations in respect of prior years were finalised and agreed.

Loss for the year before acquisition related and reorganisation and other costs amounted to £0.140m (2020: loss £0.166m). The 2021 adjusted loss benefitted from tax income of £0.287m (2020: tax income of £0.143m). The statutory profit for the year was £0.004m (2020: loss £0.663m). Basic profit/(loss) per share (EPS) was 0.02p (2020: (3.37)p). Fully diluted EPS was to 0.02p (2020: (3.37)p). Adjusted basic EPS increased to 0.24p (2020: (0.59)p).

## Capital expenditure

The Group invested £1.008m in property, plant and equipment and product development during the year (2020: £0.971m) of which £0.987m (2020: £0.969m) related to capitalised development costs.

## Trade and other payables

As with previous years, the trade and other payables includes deferred income of £1.639m (2020: £2.029m), 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 2021 in respect of services to be delivered in 2022. 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 £0.764m (2020: £1.291m). The Group completed repayment of the June 2019 loan in June 2021. 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, monthly repayments commenced in July 2021.

Bank borrowings at 31 December 2021 were therefore £1.350m (2020: £1.804m). The Group also had a convertible loan of £0.400m (2020: £0.408m) which will not be repaid until the CBIL loan has been repaid.

On behalf of the Board

**Joanne Curd**
**Chief Financial Officer**

25 April 2022

The Strategic Report is signed on behalf of the Board by

**Jason Starr**
**Chief Executive**

25 April 2022

# CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2021

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. 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 Chief Financial Officer 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 Chief Financial Officer 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 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. Our team of account managers are key to communicate with them and ensure close liaison, in addition to the day-to-day communication that occurs with 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 employees are key to the business and the directors recognise the need for engagement with employees. Regular internal meetings are held to update employees on current matters. With around 85 people, it means that directors and senior 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. 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 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 the Group. There is a formal schedule of matters reserved specifically for its decisions, relating to strategy, finance, risk, operations and governance.

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

Details of the members of the Board are set out below and further biographical details are on pages 22 and 23 or on our website.

| **Non-Executive Directors** | | |
|---|---|---|
| Giles Fearnley | Non-executive Chairman | Independent - GR Fearnley holds 2.3% of the share capital and this level of holding is not considered by the Board to change his independence.<br><br>Commitment to the business is as required and averages approximately 1 day per month |
| Julie Pomeroy | Non-executive Director (from 1 October 2021) | JP Pomeroy has moved to a Non-executive for 12 months having previously held the role of Group Finance Director, this was to enable a smooth handover to the incoming CFO. JP Pomeroy is free from any business or other relationship which could materially interfere with the exercise of her independent judgement and Julie holds 0.3% of the share capital<br><br>Time commitment to the business is as required and averages approximately 1 day per month |
| **Executive Directors** | | |
| Jason Starr | Chief Executive Officer | Full time |
| Joanne Curd | Chief Financial Officer<br>(from 1 October 2021) | Part time – avg. 2.5 days per week |
| Paul Mather | Chief Operations Officer | Full time |
| Simon Warburton | Chief Technology Officer | Full time |
| Steve Hammond | Chief Engineering Officer (from 28 January 2021) | Full time |

# CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2021
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. The Chairman and the Board collectively believes this split between its five executive and two non-executive directors, including the Chairman, is appropriate for an AIM-quoted Group of its size, market cap, and individual circumstances.

The Board meets regularly 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 2021 is set out below.

| Name | Number of meetings held | Number of meetings attended |
|---|---|---|
| Giles Fearnley | 8 | 8 |
| Julie Pomeroy | 8 | 8 |
| Jason Starr | 8 | 8 |
| Joanne Curd | 1 | 1 |
| Paul Mather | 8 | 8 |
| Simon Warburton | 8 | 7 |
| Steve Hammond | 8 | 7 |

Currently one third of the Board submits itself for re-election at each AGM as part of the Group's formal retirement by rotation policy. Under the current Articles every director must offer themselves for re-election every three years, this 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 and as a result offers himself for re-election on an annual basis. Despite serving the Board on a long term basis, the directors individually believe that he acts objectively in his role and 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 directors, meets twice yearly. The remuneration committee is made up of the Non-executive directors and meets on an ad hoc basis. Other Board members may attend these meetings by invitation.

The nomination committee meets as and when required and there was one meeting in 2021 to appoint S Hammond to the Board, (2020: nil)

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 2021, 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. Two member of the Board are female. Board appointments are made solely on merit. Other senior management appointments are considered by the remuneration committee and the Board.

| 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. |
| Julie Pomeroy | Non-Executive Director (from 1 October, previously Group Finance Director) | 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. She also joined the Board of Oxford Cannabinoid Technologies Holdings plc as a non executive director in May 2021. |
| 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. |
| Joanne Curd | Chief Financial Officer (from 1 October 2021) | Joanne is a qualified accountant and an experienced executive, with a broad business background, having held senior roles at Virgin Media over a 10 year period. |

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.

## 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 given the size of the Board and the day-to-day interaction between members. A two-yearly internal evaluation is considered appropriate with the last evaluation taking place in February 2022 with the results reported to the Board by the Chairman in April 2022. 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

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 2021
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, with legal advice, to help manage risk and compliance.

## 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 |
| Julie Pomeroy | NED (from 1 October 2021) | Independent NED |
| Jason Starr | CEO | Managing the Group's businesses |
| Joanne Curd | Chief Financial Officer (from 1 October 2021) | The financial aspects of the group and all Company Secretary activities. |
| Paul Mather | Director | Global operations of the business |
| Simon Warburton | Director | IT infrastructure together with sales, marketing and account management operations |
| Steve Hammond | Director | R&D and software engineering strategy of the Group's software products |

There are two main Board committees; an Audit Committee and a Remuneration Committee, their responsibilities are summarised below. The Board as a whole makes up the Nomination Committee.

## Audit Committee

- The committee consists of the 2 non-executive directors with members of the executive management team joining by invitation.
- It monitors the integrity of the financial statements of the Company, including its Annual and Interim Reports, trading statements, preliminary and interim financial results
- It assesses the external auditor's independence and objectivity and the effectiveness of the audit process
- The committee considers an internal audit function is not currently justified based on the size of the Group.
- The committee meets at least annually with the external auditors and without executive management.
- The committee reports to the Board on how it has discharged its responsibilities

## Remuneration Committee

- The committee determines directors' and senior management remuneration and policy including awards under the Group's option schemes.
- The Chief Executive Officer is consulted on remuneration packages and policy but does not attend discussions relating to his own package.
- Non-executive directors remuneration and terms & conditions 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 the Corporate Governance section of the website. As the Company evolves the appropriateness of its governance structures will be reviewed.

## 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 role in representing and promoting the interests of the Group's shareholders and is accountable to shareholders for the long-term performance and success of the Group.

The Chief Executive and the Chief Financial Officer 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 the Chief Financial Officer 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 on request.

After the AGM a RNS is published to announce the resolutions passed at the AGM, with the majority of AGM resolutions proposed have been passed to date.

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 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.

Details of the work of the audit and remuneration committee are dealt with above. The remuneration report is contained on pages 19 and 20 and the audit committee report in on page 18.

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

Regular internal meetings are held to keep employees informed about developments in the business and for issues to be raised.

# AUDIT COMMITTEE REPORT

For the year ended 31 December 2021

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 Julie Pomeroy joined from October 2021. We were both Non-Executive Directors and regarded by the Board as independent. The Board is of the view that we have recent and relevant experience. In 2021 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

Following a competitive tender process the Group has appointed new auditors for the period ending 31 December 2021.

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 51 of the Group's financial statements. The non-audit fees primarily relate to Group taxation compliance.

The Committee notes that it has at all times during the year acted in accordance with its terms of reference and confirms that it has ensured, through ongoing monitoring and review, the independence and objectivity of the external auditors, and recommends that the current auditors be re-appointed for the period ending 31 December 2022.

**Giles Fearnley**
Chair of the Audit Committee

25 April 2022

# REPORT TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION

For the year ended 31 December 2021

## Remuneration report

## Service contracts

The Board's policy is that service contracts of full time executive directors should provide for termination by the Group on one year's notice, with part time executive directors at no less than six months' notice. The service contracts of each of the current executive directors provide for such periods of notice.

The Chairman has a letter of appointment providing a fixed three-year service period, which may be terminated by giving six months' notice. Whilst the Non-Executive director has a 12 month contract terminating in September 2022.

## 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 and are not entitled to participate in any of the Group's share schemes. The current non-executive director, Julie Pomeroy, received share options in 2021 as a result of her role as an executive director, since becoming a non-executive director in October her entitlement to participate has ceased. They are entitled to be reimbursed the reasonable expenses incurred by them in carrying out their duties as directors of the Company. They are also 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. The executive directors' bonus recognised in the 2021 financial year is £nil (2020: £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.

# REPORT TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION

For the year ended 31 December 2021
Continued

## Directors' remuneration

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

| | Salary and fees £'000 | Pension payment £'000 | Benefits £'000 | 2021 Total £'000 | 2020 Total[1] £'000 |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| J S Starr | 123 | 10 | 2 | 135 | 129 |
| A D James * | 107 | 13 | 1 | 121 | 104 |
| J P Pomeroy ** | 68 | 9 | 2 | 79 | 103 |
| P Mather *** | 96 | 15 | - | 111 | 107 |
| S Warburton | 95 | 12 | 2 | 109 | 106 |
| S Hammond **** | 97 | 8 | - | 105 | - |
| J M Curd ***** | 13 | - | - | 13 | - |
| **Non-Executive Directors** | | | | | |
| G R Fearnley | 21 | - | 3 | 24 | 27 |
| J P Pomeroy ** | 3 | - | 1 | 4 | - |
| | **623** | **67** | **11** | **701** | **576** |

* AD James resigned on 30 September 2021

** JP Pomeroy appointed Non-Executive Director on 1 October 2021 previously holding the role of Executive Director

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

**** S Hammond joined the Executive team from 28 January 2021

***** JM Curd joined on 1 October 2021

[1] The directors took a temporary salary cut through April to September 2020 which has been lifted in 2021 which is reflected in the individual increases between 2020 and 2021.

There were no long term incentive payments made in the period (2020: £Nil)

## LTIP award – share options

| | Number of options granted under LTIP scheme in year | Total number of options granted under LTIP scheme at 31 December 2021 | Total number of options granted under LTIP scheme at 31 December 2020 |
|---|---|---|---|
| J Starr | 50,000 | 50,000 | 20,000 |
| A D James * | 50,000 | 50,000 | 20,000 |
| J P Pomeroy ** | 50,000 | 50,000 | 20,000 |
| P Mather | 50,000 | 50,000 | 75,000 |
| S Warburton | 50,000 | 50,000 | 40,000 |
| S Hammond *** | 50,000 | 50,000 | 45,000 |
| J M Curd **** | - | - | - |
| **Total** | **300,000** | **300,000** | **220,000** |

* AD James resigned on 30 September 2021

** JP Pomeroy appointed Non-Executive Director on 1 October 2021 previously holding the role of Executive Director

*** S Hammond joined the Executive team from 28 January 2021

**** JM Curd joined on 1 October 2021

## 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 2021 | At 31 December 2020 |
| J S Starr | 3,577,591 | 3,577,591 |
| G R Fearnley | 483,435 | 453,435 |
| J P Pomeroy | 78,416 | 63,733 |
| P Mather | 82,177 | 32,177 |
| S Warburton | 77,290 | 77,290 |
| S Hammond | - | - |
| J M Curd | - | - |

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 2021 | At 31 December 2020 |
| J S Starr | £24,250 | £24,250 |
| 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 individual director can elect payment by cash or the issue of further new ordinary shares.

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 2021 | At 31 December 2020 |
| J S Starr | 50,000 | 20,000 |
| J P Pomeroy * | 66,250 | 43,146 |
| P Mather ** | 66,250 | 98,146 |
| S Warburton | 66,250 | 100,646 |
| S Hammond *** | 91,250 | 93,146 |
| J M Curd **** | 50,000 | - |
| | **390,000** | **355,084** |

* JP Pomeroy appointed Non-Executive Director on 1 October 2021 previously holding the role of Executive Director

** Excludes options held by Mr Mather spouse

*** S Hammond joined the Executive team from 28 January 2021

**** JM Curd joined on 1 October 2021

# BOARD OF DIRECTORS

For the year ended 31 December 2021

## GILES FEARNLEY
## 67
### 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
## 50
### CHIEF EXECUTIVE

Jason 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.

## JOANNE CURD
## 52
### CHIEF FINANCIAL OFFICER

Joanne is a qualified accountant and an experienced executive, with a broad business background, having held senior roles at Virgin Media over a 10 year period. Since leaving Virgin Media in 2018, Joanne has held a number of interim roles.

## PAUL MATHER
## 46
### 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 45
### 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 39
### 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.

## JULIE POMEROY 66
### NON-EXECUTIVE DIRECTOR

Julie previously held the role of Group Finance Director, until her resignation 30 September 2021. She graduated with an honours degree in Physics from Birmingham University and is a Chartered Accountant and Chartered Director as well as holding 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. She is also the non executive chair of Oxford Cannabinoid Technologies Holdings plc which she joined as a NED in May 2021.

# DIRECTORS' REPORT

For the year ended 31 December 2021

The directors present their report and financial statements for the year ended 31 December 2021.

## Results and dividends

The consolidated statement of comprehensive income for the year is set out on page 32.

No final dividend will be paid (2020: nil)

## Directors

The following directors have held office since 1 January 2021:
J S Starr
A D James – resigned 30 September 2021
J P Pomeroy – transitioned to a Non-Executive Director from 1 October 2021
G R Fearnley – Non-Executive Director and Chairman
P Mather
S Warburton
S Hammond – appointed 28 January 2021
J M Curd – appointed 1 October 2021

The interests of the directors (including family interests) in the share capital of the Company are listed on page 21.

G R Fearnley has been Non-Executive Director for over nine years and therefore will offer himself for re-election annually. As Joanne Curd has been appointed since the last AGM she 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.

## 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, which will support the expected growth outlined in the Chairman's Statement and the Strategic Report.

## Going Concern

The Strategic Report and opening pages to the annual report discuss the Group's business activities and headline results, together with the financial statements and notes which detail the results for the year, net current liability position and cash flows for the year ended 31 December 2021. The cash flow forecasts have been further tested from the date of signing the accounts reviewing assumptions around new and existing business with growth and renewal rates being reduced.

The Group meets its day to day working capital requirements through its cash balance. It has in place a £1.5m CBIL loan, secured in June 2020, repayable over 6 years with capital repayments commencing from July 2021. The Group did not have an overdraft at the year-end and paid-off a two year bank loan in June 2021. The Group's forecasts, taking into account the Board's future expectations of the Group's performance, indicate that there is sufficient headroom within its CBIL loan facility. Compliance with the CBIL covenant has been considered and based on management expectations and actions, that could practically be taken, the directors do not consider any reasonable risk to arise from this.

As at the date of this report, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## Energy and carbon emissions

The Group is committed to minimising its environmental impact, and although not required to report under SECR (UK Streamline Energy & Carbon Reporting) regulations, since 2020 we have started to track certain measures to benchmark our operations for future improvements.

Our operations are “office based” hence our activities are not regarded as having a high environmental impact. Furthermore, the Groups office accommodation is either rented or in serviced offices, limiting some of the direct measures we could take, e.g. we could not change our heating, ventilation & air conditioning systems.

In 2020 we undertook a program of works to minimise the emissions within our control, which we have continued throughout 2021. These included:

i) Electronic system power and hibernation policies to minimise electrical use
ii) Energy efficiency is a key factor when purchasing new or replacement hardware
iii) Replacing with higher efficiency light bulbs, when required, in our offices
iv) Motion activated lighting is throughout our premises
v) Video conferencing to reduce business travel where possible
vi) Encourage staff to walk to local amenities from their office locations during breaks
vii) Recycling and “print only if required” policies

| DSG UK emissions | Current year * | Prior year * |
|---|---|---|
| Emissions from head office / kg$CO_2$e | 50,366 | 55,254 |
| Emissions from business travel / kg$CO_2$e | 1,904 | 2,981 |
| Total emissions / kg$CO_2$e | 52,270 | 58,235 |
| kg$CO_2$e per £ revenue | 0.0093 | 0.0092 |
| kg$CO_2$e per FTE | 688 | 747 |
| Energy used to calculate emissions | | |
| Energy from head office / kWh ** | 237,204 | 236,998 |
| Energy from business travel / kWh | 7,878 | 12,362 |
| Energy consumption used to calculate emissions / kWh | 245,082 | 249,360 |

* Includes estimates

** 2020 restated to reflect additional sub-meters

The most significant opportunities available to us have been taken in recent years to reduce consumption but we continue to watch closely to future improvements that we could take advantage of.

## Research and development activities

The Directors consider research and development investment to be fundamental to the success of the Group. This is achieved by a programme of continuous software development for the recruitment market including enhancements to existing products and delivery of new products.

## 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 2022 Annual General Meeting will take place at 12 Cedarwood, Crockford Lane, Chineham Business Park, Basingstoke, RG24 8WD on Wednesday 15 June 2022 at 10:30am. The Notice of Annual General Meeting is given, together with explanatory notes to the proposed resolutions to be considered at the meeting, in the separate document to Shareholders which accompanies this report.

## Auditor

Resolutions to re-appoint Crowe U.K. LLP as auditor of the Group and to authorise the Audit Committee to determine their remuneration will be proposed at the 2022 Annual General Meeting.

# DIRECTORS' REPORT

For the year ended 31 December 2021
Continued

## Directors' responsibilities

The directors are responsible for preparing the Annual 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 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 UK-adopted international accounting standards. 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 UK-adopted international accounting standards;
- 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.

## Disclosure of information to auditor

Each director confirms that, so far as they are aware, there is no relevant audit information (as defined in section 418 of the Companies Act 2006) of which the Company's auditor is unaware and that each director has taken all the steps they ought reasonably to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Approved by the Board and signed on its behalf by:

**J M Curd**
**Company Secretary & CFO**

25 April 2022

# INDEPENDENT AUDITOR'S REPORT

to the members of Dillistone Group Plc
For the year ended 31 December 2021

## Opinion

We have audited the financial statements of Dillistone Group PLC (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2021, which comprise:

- the Group statement of comprehensive income for the year ended 31 December 2021;
- the Group and Parent Company statements of changes in equity for the year ended 31 December 2021;
- the Group and Parent Company statements of financial position as at 31 December 2021;
- the Group and Parent Company statements of cash flows for the year then ended; and
- the notes to the financial statements, including significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK-adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

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

## Conclusions relating to going concern

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. Our evaluation of the directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- reviewing the cash flow model provided by management and challenging the assumptions made;
- reviewing management's forecasts which show growth in both revenue and profitability. Our assessment therefore considered if this will be feasible in light of past losses and current economic conditions;
- agreed the integrity of the forecast model including its arithmetical accuracy;
- considering the accuracy of past budgeting, as well as a review of the February 2022 management accounts compared to forecast;
- considering the cash position of the business along with current facilities available; and
- considering the appropriateness of the related disclosures against the requirements of the accounting standards.

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's and 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.

# INDEPENDENT AUDITOR’S REPORT

to the members of Dillistone Group Plc
For the year ended 31 December 2021
Continued

## Overview of our audit approach

*Materiality*

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £70,000, based on 6% of EBITDA. Materiality for the Parent Company financial statements as a whole was set at £49,000 based on 70% of Group materiality.

We use a different level of materiality (‘performance materiality’) to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment. This is set at £49,000 for the group and £34,300 for the parent.

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and directors’ remuneration.

We agreed with the Audit Committee to report to it all identified errors in excess of £3,500. Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

*Overview of the scope of our audit*

The audit procedures have been carried out solely by Crowe U.K. LLP. We performed an audit of the complete financial information of Dillistone Group PLC and all of its subsidiaries. The US trading subsidiary, Ikiru People Inc. and the Australian trading subsidiary, Ikiru People Pty Limited, were audited using a component materiality for the purposes of the consolidation only. No separate audit opinions will be issued for these entities.

## 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. These matters included 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.

We considered going concern to be a key audit matter. Our observations on this area are set out in the Conclusions relation to Going Concern section of the auditors’ report.

This is not a complete list of all risks identified by our audit.

| Key audit matter | | How the scope of our audit addressed the key audit matter |
|---|---|---|
| **Revenue recognition** | We considered the risk that revenue is not recognised in accordance with the accounting policy set out in the financial statements. The Group’s revenue recognition policy can be found in note 1.4 to the financial statements.<br><br>We consider the key risk of material misstatement to arise from the recognition of revenue around the year end, including the correct apportionment of revenue in the year and the related amount deferred at the year end. | We reviewed and assessed the Group’s revenue recognition policy to ensure it complied with the requirements of IFRS 15 ‘Revenue from Contracts with Customers’. A key part of our assessment included testing a selection of contracts, tracing the satisfaction of performance obligations to supporting documentation and evidence, such as the issue of licence keys.<br><br>We performed testing over all material revenue streams, including:<br><br>• Substantively testing a sample of revenue transactions from the nominal ledger to underlying supporting documentation such as customer contract or order, invoice and cash payment to ensure revenue occurred and was appropriately recognised.<br><br>• Performing testing on cut off and deferred revenue, ensuring revenue was recorded in the correct period.<br><br>• Completing journals testing, focusing on any unusual revenue transactions that credit revenue but do not follow the expected path of debiting trade receivables, cash or deferred revenue. |

| Key audit matter | | How the scope of our audit addressed the key audit matter |
|---|---|---|
| **Capitalised development costs** | The Group capitalises costs incurred on product development relating to the design and development of new or enhanced products. This is described in note 1.12 to the financial statements.<br><br>There are significant judgements involved with the capitalised development costs, these include:<br>• Ensuring internal costs are only capitalised when the requirements of IAS 38 are met;<br>• Determining the value of salary costs for those individuals not within the development team; and<br>• Assessing the technical and commercial feasibility of completing the project.<br>• Assessing the ability to complete the project. | Our audit procedures included:<br>• On a sample basis, agreeing capitalised expenditure back to supporting documentation to ensure the costs were accurate and capitalised in accordance with the requirements of IAS 38.<br>• Making enquiries of the Head of Project Development to determine the technical and feasibility to complete major projects.<br>• Assessing whether major projects are commercially viable with reference to their income generation.<br>• For a sample of capitalised payroll costs, reviewing employment contracts and timecards to verify that only development related costs were capitalised. |
| **Carrying value of goodwill and intangibles** | The Group holds goodwill at a carrying value of £3.4m, development costs of £2.5m and acquisition intangibles of £0.6m.<br><br>The parent company also holds investments in group companies of £7.2m.<br><br>Recovery of these assets is dependent upon future cash flows which are required to be discounted. There is a risk that forecasts for these future cash flows are not achieved or that cash flows are not discounted at an appropriate rate. If cash flows do not meet expectations the assets may become impaired. | We have reviewed, tested and challenged Management's impairment review of investments, goodwill and intangible assets.<br><br>The impairment reviews rely on forecasts of future cash flows based on board approved forecasts. We challenged Management on the assumptions made, including the forecast growth rate, profitability and terminal growth rates applied. We also challenged management on the discount rate applied to these forecasts. |

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

# INDEPENDENT AUDITOR'S REPORT

to the members of Dillistone Group Plc
For the year ended 31 December 2021
Continued

## Other information

The directors are responsible for the other information contained within the annual report. 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 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.

## Opinion on other matter prescribed by the Companies Act 2006

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

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

## Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 26, 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 Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

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

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 within which the Group and Parent Company operates, focusing on those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. The laws and regulations we considered in this context were the Companies Act 2006 and Taxation legislation.

We identified the greatest risks of material impact on the financial statements from irregularities, including fraud, to be the override of controls by management and revenue recognition. Our audit procedures to respond to management override risks included enquiries of management about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals and reviewing accounting estimates for biases. Our audit procedures to respond to revenue recognition risks included testing a sample of income across the year, agreeing this to supporting evidence, and reviewing income received either side of the year end to ensure this has been recognised in the correct period.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.

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 company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Richard Baker (Senior Statutory Auditor)**
for and on behalf of
Crowe U.K. LLP

Statutory Auditor

Reading

25 April 2022

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

| | Note | 2021 £'000 | 2020 £'000 |
|---|---|---|---|
| **Revenue** | 3 | 5,599 | 6,332 |
| Cost of sales | | (685) | (584) |
| **Gross profit** | | 4,914 | 5,748 |
| Administrative expenses | | (5,113) | (6,569) |
| Operating loss | 6 | (199) | (821) |
| Adjusted operating (loss) before acquisition related, reorganisation and other items | 2 | (140) | (166) |
| Acquisition related, reorganisation and other items | 5 | (59) | (655) |
| Operating (loss) | | (199) | (821) |
| Financial cost | 8 | (99) | (93) |
| **(Loss) before tax** | | (298) | (914) |
| Tax income | 9 | 302 | 251 |
| **Profit/(loss) for the year** | | 4 | (663) |
| **Other comprehensive income/(loss)** | | | |
| Items that will be reclassified subsequently to profit and loss: | | | |
| Currency translation differences | | 4 | 12 |
| **Total comprehensive profit/(loss) for the year** | | **8** | **(651)** |
| **Earnings per share** | | | |
| Basic | 10 | 0.02p | (3.37)p |
| Diluted | 10 | 0.02p | (3.37)p |

The notes on pages 38 to 71 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

| | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Convertible loan reserve £'000 | Retained earnings £'000 | Share options £'000 | Foreign exchange £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2020** | 983 | 1,631 | 365 | 14 | 871 | 94 | 47 | 4,005 |
| **Comprehensive income** | | | | | | | | |
| Loss for the year | - | - | - | - | (663) | - | - | (663) |
| **Other comprehensive income** | | | | | | | | |
| Exchange differences on translation of overseas operations | - | - | - | - | - | - | 12 | 12 |
| Total comprehensive loss | | | - | - | (663) | - | 12 | (651) |
| **Transactions with owners** | | | | | | | | |
| Share option charge | - | - | - | - | - | 16 | - | 16 |
| Total transactions with owners | - | - | - | - | - | 16 | - | 16 |
| **Balance at 31 December 2020** | 983 | 1,631 | 365 | 14 | 208 | 110 | 59 | 3,370 |
| **Comprehensive income** | | | | | | | | |
| Profit for the year | - | - | - | - | 4 | - | - | 4 |
| **Other comprehensive income** | | | | | | | | |
| Exchange differences on translation of overseas operations | - | - | - | - | - | - | 4 | 4 |
| Total comprehensive loss | - | - | - | - | 4 | - | 4 | 8 |
| **Transactions with owners** | | | | | | | | |
| Share option charge | - | - | - | | 50 | (46) | - | 4 |
| Total transactions with owners | - | - | - | - | 50 | (46) | - | 4 |
| **Balance at 31 December 2021** | 983 | 1,631 | 365 | 14 | 262 | 64 | 63 | 3,382 |

The notes on pages 38 to 71 are an integral part of these consolidated and company financial statements.

# COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

| | 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 2020** | 983 | 1,631 | 365 | 14 | 2,011 | 94 | 5,098 |
| **Comprehensive income** | | | | | | | |
| Loss for the year | - | - | - | - | (98) | - | (98) |
| Total comprehensive loss | - | - | - | - | (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 |
| **Comprehensive income** | | | | | | | |
| Loss for the year | - | - | - | - | (35) | - | (35) |
| Total comprehensive loss | - | - | - | - | (35) | - | (35) |
| **Transactions with owners** | | | | | | | |
| Share option charge | - | - | - | - | 50 | (46) | 3 |
| Total transactions with owners | - | - | - | - | 50 | (46) | 3 |
| **Balance at 31 December 2021** | 983 | 1,631 | 365 | 14 | 1,928 | 64 | 4.985 |

The notes on pages 38 to 71 are an integral part of these consolidated and company financial statements.

# CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

As at 31 December 2021

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| **ASSETS** | | | | | |
| Non-current assets | | | | | |
| Goodwill | 12 | 3,415 | 3,415 | - | - |
| Other intangible assets | 13 | 3,142 | 3,362 | - | - |
| Property, plant and equipment | 14 | 25 | 24 | - | - |
| Right of use assets | 15 | 592 | 680 | - | - |
| Investments | 16 | - | - | 7,168 | 7,168 |
| Total non-current assets | | 7,174 | 7,481 | 7,168 | 7,168 |
| Current assets | | | | | |
| Trade and other receivables | 17 | 615 | 883 | 45 | 69 |
| Current tax receivable | | 29 | 186 | - | - |
| Cash and cash equivalents | 19 | 764 | 1,291 | 21 | 388 |
| Total current assets | | 1,408 | 2,360 | 66 | 457 |
| **Total assets** | | 8,582 | 9,841 | 7,234 | 7,625 |
| **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 | | 262 | 208 | 1,927 | 1,913 |
| Share option reserve | 23 | 64 | 110 | 64 | 110 |
| Foreign exchange reserve | | 63 | 59 | - | - |
| Total equity | | 3,382 | 3,370 | 4,984 | 5,016 |
| **Liabilities** | | | | | |
| Non-current liabilities | | | | | |
| Trade and other payables | 18 | 238 | 271 | - | - |
| Lease liabilities | 20 | 560 | 638 | - | - |
| Borrowings | 20 | 1,450 | 1,749 | 1,450 | 1,749 |
| Deferred tax liability | 9 | 210 | 296 | - | - |
| Total non-current liabilities | | 2,458 | 2,954 | 1,450 | 1,749 |
| Current liabilities | | | | | |
| Trade and other payables | 18 | 2,347 | 2,953 | 500 | 487 |
| Lease liabilities | 20 | 95 | 103 | - | - |
| Borrowings | 20 | 300 | 461 | 300 | 373 |
| Total current liabilities | | 2,742 | 3,517 | 800 | 860 |
| Total liabilities | | 5,200 | 6,471 | 2,250 | 2,609 |
| **Total liabilities and equity** | | 8,582 | 9,841 | 7,234 | 7,625 |

The loss for the financial year for the parent Company was £(35,000) (2020: loss £98,000).

The accounts were approved by the Board of Directors and authorised for issue on 25 April 2022 and were signed on its behalf by:

JM Curd – Chief Financial Officer
Registration number - 4578125

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2021

| | For the year ended 31 December 2021 £'000 | For the year ended 31 December 2021 £'000 | For the year ended 31 December 2020 £'000 | For the year ended 31 December 2020 £'000 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Loss before tax | (298) | | (914) | |
| Adjustment for | | | | |
| Financial cost | 99 | | 93 | |
| Depreciation and amortisation | 1,335 | | 1,984 | |
| Share option expense | 3 | | 16 | |
| Foreign exchange adjustments arising from operations | 10 | | (28) | |
| Operating cash flows before movement in working capital | 1,149 | | 1,151 | |
| Decrease in receivables | 268 | | 360 | |
| Decrease in payables | (639) | | (1,120) | |
| Taxation refunded | 373 | | 314 | |
| Net cash generated from operating activities | | 1,151 | | 705 |
| **Investing activities** | | | | |
| Purchases of property, plant and equipment | (21) | | (2) | |
| Investment in development costs | (987) | | (969) | |
| Net cash used in investing activities | | (1,008) | | (971) |
| **Financing activities** | | | | |
| Interest paid | (99) | | (84) | |
| Proceeds from bank loan | - | | 1,500 | |
| Bank loan repayments made | (461) | | (166) | |
| Lease payments made | (104) | | (114) | |
| Repayment of banking facility | - | | (288) | |
| Net cash (used in)/generated from financing activities | | (664) | | 848 |
| Net (decrease)/increase in cash and cash equivalents | | (521) | | 582 |
| Cash and cash equivalents at beginning of the year | | 1,291 | | 690 |
| Effect of foreign exchange rate changes | | (6) | | 19 |
| Cash and cash equivalents at end of year | | 764 | | 1,291 |

The notes on pages 38 to 71 are an integral part of these consolidated and company financial statements.

# COMPANY CASH FLOW STATEMENT

For the year ended 31 December 2021

| | For the year ended 31 December 2021 £'000 | For the year ended 31 December 2021 £'000 | For the year ended 31 December 2020 £'000 | For the year ended 31 December 2020 £'000 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Loss before tax | (35) | | (98) | |
| Adjustment for | | | | |
| Financial cost | 65 | | 54 | |
| Share option expense | 3 | | 16 | |
| Operating cash flows before movement in working capital | 33 | | (28) | |
| Decrease in receivables | 24 | | 862 | |
| Increase/(decrease) in payables | 13 | | (1,447) | |
| Net cash generated from/(used in) operating activities | | 70 | | (613) |
| **Financing activities** | | | | |
| Proceeds from bank loan | - | | 1,500 | |
| Interest paid | (64) | | (45) | |
| Bank loan repayments made | (373) | | (166) | |
| Repayment of banking facility | - | | (288) | |
| Net cash (used in)/generated from financing activities | | (437) | | 1,001 |
| Net (decrease)/increase in cash and cash equivalents | | (367) | | 388 |
| Cash and cash equivalents at beginning of the year | | 388 | | - |
| Cash and cash equivalents at end of year | | 21 | | 388 |

The notes on pages 38 to 71 are an integral part of these consolidated and company financial statements.

# NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

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 UK-adopted international accounting standards, IFRIC Interpretations and the Companies Act 2006. 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:

*Capitalisation and amortisation of internal development expenditure*
Amortisation rates are based on estimates of the useful economic lives and residual values of the assets involved. The assessment of these useful economic lives is made by projecting the economic life cycle of the asset which is subject to alteration as a result of product development and innovation. Amortisation rates are changed where economic lives are re-assessed and technically obsolete items written off where necessary. The carrying value of capitalised development is reviewed for impairment indicators at each accounting period end. See note 13.

In addition, management estimate the amount of directors' costs that are capitalised given the degree of the director's involvement in relevant projects.

*Impairment of goodwill, other intangible assets and investments*
The Group tests goodwill, other intangible assets and investments when impairment indicators exist. These calculations require the use of estimates for 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 for calculations and impacts if assumptions are changed.

*Trade receivables*
In accordance with IFRS 9 the Group measures expected credit losses using a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on the ageing of the debt. An historical credit loss rate is then calculated and then adjusted to reflect expectations about future credit. Calculation of loss allowance is provided on note 17.

**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:

*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 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 'Amortisation of internal development expenditure' in Significant estimates above for further details.

*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. Management judge that the typical life of relevant support contracts to be five years. Changes to this judgement would impact the timing of revenue recognition on such contracts.

## 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. Together with the financial statements and notes which detail the results for the year, net current liability position and cash flows for the year ended 31 December 2021. The Group prepare 3 year budgets and cash flow forecasts to ensure that the Group can meet its liabilities as they fall due.

The Group meets its day to day working capital requirements through its cash balance. It has in place a £1.5m CBIL loan, secured in June 2020, repayable over 6 years with capital repayments commencing from July 2021. The Group did not have an overdraft at the year-end and paid-off a two year bank loan in June 2021. The Group's forecasts, taking into account the Board's future expectations of the Group's performance, indicate that there is sufficient headroom within its CBIL loan facility. Compliance with the CBIL covenant has been considered and based on management expectations and actions, that could practically be taken, the directors do not consider any reasonable risk to arise from this.

The cash flow forecasts have been stress tested reviewing assumptions around new and existing business with growth and renewal rates being reduced. A reverse stress test was also prepared to review what reduction in revenue would be necessary to breach overdraft limits in 2022.

As at the date of this report, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## 1.3 Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of 31 December 2021. 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 2021
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:
  - o the Group having right to payment;
  - o the customer having legal title to the asset;
  - o the Group transferring physical possession of the asset to the customer, where relevant;
  - o the customer having significant risks and rewards of ownership of the asset;
  - o the customer having accepted the asset.

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

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

*Sales of perpetual licences without a mandatory support contract*

The Group licences software under licence agreements. The customer typically pays a one-off amount to purchase a licence conferring a perpetual right to use a version of the software. Revenue is recognised at a point in time, when control of the licence passes to the customer through practical acceptance. The Group considers the 'live' date to indicate practical acceptance of the software (refer note 1.1) and thus the date for transfer of control. If payments have been received in advance for licences, where practical acceptance has not yet been reached, these amounts are not recognised as revenue but as deferred income in the statement of financial position.

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

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

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

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

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

### 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 2021
Continued

### 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

This measure is not defined by International Financial Reporting Standards (IFRS) and therefore may not be directly comparable with other companies. This is a measure used by the Group to assess performance. 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 intangibles, right of use assets and property, plant and equipment (PPE)

The Group tests intangibles, right of use assets and PPE annually or more frequently if impairment indicators exist that indicate that the carrying amount may not be recoverable.

The carrying amount of the one cash-generating unit (CGU) has been determined based on value in use calculations. The value determined on the cash generating unit is compared against the assets of the Group to calculate impairments.

To determine the value-in-use, management estimates expected future cash flows, determines a suitable interest rate to calculate the present value of those cash flows. The Group prepares cash flow forecasts derived from the most recent budget. A discount factors is determined for the cash generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for the cash generating unit reduce the carrying amount of any goodwill first and 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.

## 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 | 3 years straight line |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021
Continued

### 1.14 Financial assets

The Group classifies its financial assets under the definitions provided in International Financial Reporting Standard 9 (IFRS 9), depending on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Management considers that the Group's financial assets fall under the amortised cost category. These are non-derivative financial assets with fixed or determined payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date, which are classified as non-current assets. The Group's financial assets held at amortised cost arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. As such they comprise trade receivables, intercompany trading balances (in relation to Company accounts), and cash and cash equivalents. Financial assets do not comprise prepayments.

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

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

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

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

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

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

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

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

The Parent Company's receivables due from Group companies 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 2021, 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

The Group leases office space usually on a fixed period, some with an ability to extend at the option of the Group and 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.

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 discount rate used on the office building is 5%, which is based on the bank loan borrowing rate plus commitment and legal fees. The discount rate on the computer equipment varies depending on the implicit rate in the lease, with this calculated to ensure that the final liability on the agreement is equal to the final cash payment that is required.

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021
Continued

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, or expire.
- '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 and 8.

Government grants include furlough payments which are recognised in employee costs to match with the costs that they are intended to compensate. See note 7.

### 1.25 Research and development

The group qualified for R&D relief under the SME scheme, with tax income adjusted to include an estimate for R&D tax credit benefit. See note 9.

### 1.26 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 2021
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## 2. Reconciliation of adjusted profits to consolidated statement of comprehensive income

| | Note | Adjusted profits 2021 £'000 | Acquisition related, reorganisation and other costs 2021* £'000 | 2021 £'000 | Adjusted profits 2020 £'000 | Acquisition related reorganisation and other costs 2020* £'000 | 2020 £'000 |
|---|---|---|---|---|---|---|---|
| **Revenue** | | 5,599 | - | 5,599 | 6,332 | - | 6,332 |
| Cost of sales | | (685) | - | (685) | (584) | - | (584) |
| **Gross profit** | | 4,914 | - | 4,914 | 5,748 | - | 5,748 |
| Administrative expenses | | (5,054) | (59) | (5,113) | (5,914) | (655) | (6,569) |
| Operating (loss) | | (140) | (59) | (199) | (166) | (655) | (821) |
| Financial income | | - | - | - | - | - | - |
| Financial cost | | (99) | - | (99) | (93) | - | (93) |
| **(Loss) before tax** | | (239) | (59) | (298) | (259) | (655) | (914) |
| Tax income | | 287 | 15 | 302 | 143 | 108 | 251 |
| Profit/(loss) for the year | | 48 | (44) | 4 | (116) | (547) | (663) |
| Other comprehensive loss net of tax: | | | | | | | |
| Currency translation differences | | 4 | - | 4 | 12 | - | 12 |
| **Total comprehensive profit/(loss) for the year net of tax** | | 52 | (44) | 8 | (104) | (547) | (651) |
| **Earnings per share** | | | | | | | |
| Basic | 10 | 0.24p | - | 0.02p | (0.59)p | - | (3.37)p |
| Diluted | 10 | 0.24p | - | 0.02p | (0.59)p | - | (3.37)p |

* See note 5

## 3. Segment reporting

### Divisional segments

| | Ikiru People 2021 £'000 | Central 2021 £'000 | Total 2021 £'000 | Ikiru People 2020 £'000 | Central 2020 £'000 | Total 2020 £'000 |
|---|---|---|---|---|---|---|
| Segment revenue | 5,599 | - | 5,599 | 6,332 | - | 6,332 |
| Segment EBITDA | 953 | 29 | 982 | 1,211 | (43) | 1,168 |
| Depreciation and amortisation expense | (1,122) | - | (1,122) | (1,334) | - | (1,334) |
| Segment result before reorganisation and other costs | (169) | 29 | (140) | (123) | (43) | (166) |
| Reorganisation and other costs | 154 | - | 154 | (442) | - | (442) |
| Segment result | (15) | 29 | 14 | (565) | (43) | (608) |
| Acquisition related amortisation | - | (213) | (213) | - | (213) | (213) |
| Operating (loss) | (15) | (184) | (199) | (565) | (256) | (821) |
| Loan interest/ lease interest | (35) | (64) | (99) | (39) | (54) | (93) |
| Loss before tax | | | (298) | | | (914) |
| Income tax income | | | **302** | | | **251** |
| Profit/(loss) for the year | | | **4** | | | **(663)** |
| **Additions of non-current assets** | **1,028** | | **1,028** | **1,006** | | **1,006** |

### Products and services

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

**Revenue**

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Recurring income | 5,009 | 5,745 |
| Non-recurring income | 427 | 485 |
| Third party revenues | 163 | 102 |
| | **5,599** | **6,332** |

See note 1.4 on the revenue recognition policy under IFRS 15 and the distinction on timing of revenue recognition. In the table 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 2021 or 2020.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021
Continued

## 4. Geographical analysis

The following table provides an estimated of the Group's revenue by geographic market based on the Customers' country. This is provided for information only as the Board does not review the performance of the business from a geographical viewpoint.

**Revenue**

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| UK | 3,933 | 3,717 |
| Europe | 762 | 877 |
| Americas | 526 | 1,074 |
| Australia | 140 | 295 |
| ROW | 238 | 369 |
| | **5,599** | **6,332** |

**Non-current assets by geographical location**

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| UK | 7,169 | 7,460 |
| US | 1 | 1 |
| Australia | 4 | 20 |
| | **7,174** | **7,481** |

## 5. Acquisition related, reorganisation and other costs

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Included within administrative expenses: | | |
| Reorganisation and other costs | 6 | 78 |
| US government loan (Payment Protection Program) | (154) | - |
| Australian government grant | (6) | (71) |
| Amortisation of acquisition intangibles | 213 | 213 |
| Write-off of capitalised development | - | 435 |
| | **59** | **655** |

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

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Operating loss is stated after charging: | | |
| Depreciation on property, plant and equipment | 20 | 32 |
| Depreciation on Right to use assets | 108 | 109 |
| Amortisation | 1,207 | 1,406 |
| Write-off of capitalised development | - | 435 |
| Money purchase pension contributions | 333 | 319 |
| Fees receivable by the Group auditors: | | |
| Audit of financial statements | 15 | 25 |
| Other services: | | |
| Audit of accounts of subsidiaries of the Company | 40 | 60 |
| Taxation compliance services | 12 | 16 |
| Other services | 3 | 3 |

## 7. Employees

The average number of employees was:

| | 2021 number | 2020 number |
|---|---|---|
| Operations | 76 | 88 |
| Management | 9 | 9 |
| **Total Employee numbers** | **85** | **97** |

Their aggregate remuneration including directors' remuneration comprised:

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Wages and salaries | 3,431 | 3,743 |
| Social security costs | 382 | 371 |
| Pension costs | 333 | 319 |
| Share based payments | 9 | 9 |
| LTIP share based | (5) | 7 |
| LTIP non share based | - | (4) |
| | **4,150** | **4,445** |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021
Continued

The aggregate remuneration includes salary cost totalling £847,000 (2020: £853,000) that has been capitalised in intangible assets. In addition, the Group has received the benefit of payments under the furlough scheme of £235,000 (2020: £228,000) 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:

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Wages and salaries | 749 | 724 |
| Social security costs | 93 | 91 |
| Pension costs | 70 | 65 |
| Share based payments | 3 | 2 |
| LTIP share based | 11 | 4 |
| LTIP non share based | - | (4) |
| | **926** | **882** |

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

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Finance cost on bank overdraft | 1 | 7 |
| Finance cost on bank loan | 3 | 11 |
| Finance cost on convertible loan | 31 | 33 |
| Finance cost on lease liabilities | 35 | 38 |
| Unwinding of discount on convertible loan | - | 4 |
| Interest on CBIL loan | 56 | 35 |
| Grant from UK government to cover CBIL loan interest | (27) | (35) |
| | **99** | **93** |

## 9. Tax income

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Current tax | (96) | (99) |
| Prior year adjustment – current tax | (121) | (108) |
| **Total current tax** | (217) | (207) |
| | | |
| Deferred tax | (35) | (123) |
| Prior year adjustment – deferred tax | (60) | 80 |
| Deferred tax rate change to 25% (2020: 19.0%) | 50 | 40 |
| Deferred tax re acquisition intangibles | (40) | (41) |
| Total deferred tax | (85) | (44) |
| **Tax (income) for the year** | **(302)** | **(251)** |
| | | |
| **Factors affecting the tax credit for the year** | | |
| Loss before tax | (298) | (914) |
| UK rate of taxation | 19.0% | 19.0% |
| Loss before tax multiplied by the UK rate of taxation | (57) | (174) |
| Effects of: | | |
| Overseas tax rates | (6) | 1 |
| Impact of deferred tax not provided | (1) | 8 |
| Enhanced R&D relief | (146) | (143) |
| Disallowed expenses | 18 | 14 |
| Deferred tax rate change to 25% (2020: 19.0%) | 41 | 40 |
| Rate difference between CT rate and rate of R&D repayment | 30 | 31 |
| Prior year adjustments | (181) | (28) |
| **Tax (income)** | **(302)** | **(251)** |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021
Continued

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

| | Group | | | Company | |
|---|---|---|---|---|---|
| | 2021 £'000 | Movement £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| Internally generated intangible and fixed assets | 64 | (71) | 135 | - | - |
| Acquisition intangibles | 147 | (14) | 161 | - | - |
| | **211** | **(85)** | **296** | **-** | **-** |

| | 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** | **-** | **-** |

The UK corporation tax rate for the year is 19.0%. Deferred tax is provided in relation to the UK at a rate of 25.0% (2020:19.0%). The tax credit is impacted by the R&D tax credits available to the UK business. It has 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 £622,000 (2020: £574,000) for which no deferred tax asset has been recognised as the timing of their utilisation is uncertain.

## 10. Earnings per share

| | 2021 Using adjusted profit | 2021 | 2020 Using adjusted profit | 2020 |
|---|---|---|---|---|
| Profit/(loss) attributable to ordinary shareholders (note 2) | £48,000 | £4,000 | £(116,000) | £(663,000) |
| Weighted average number of shares | 19,668,021 | 19,668,021 | 19,668,021 | 19,668,021 |
| Basic profit/(loss) per share | 0.24p | 0.02p | (0.59)p | (3.37)p |
| | | | | |
| Weighted average number of shares after dilution | 19,668,021 | 19,668,021 | 19,670,013 | 19,670,013 |
| Fully diluted profit/(loss) per share | 0.24p | 0.02p | (0.59) p | (3.37) p |

Reconciliation of basic to diluted average number of shares:

| | 2021 | 2020 |
|---|---|---|
| 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 | 19,668,021 | 19,670,013 |

There are 493,337 (2020: 953,337) share options not included in the above calculations, as they are underwater or have been forfeited.

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 £(35,000) (2020: loss £98,000) and has been approved by the Directors.

## 12. Goodwill

| Group | Goodwill £'000 |
|---|---|
| **Cost** | |
| At 1 January 2020 | 3,415 |
| Additions | - |
| **At 31 December 2020** | **3,415** |
| Additions | - |
| **At 31 December 2021** | **3,415** |
| | |
| **Carrying amount** | |
| **At 31 December 2021** | **3,415** |
| At 31 December 2020 | 3,415 |

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 13.0% (2020: 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% (2020: 1.0%). The allocation of goodwill to the CGU is as follows:

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

The calculations showed the discount rate would need to be increased to over 17% or the cashflow reduced by 30% before an impairment became necessary.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021
Continued

## 13. Other intangible assets

| Group | Development costs £'000 | Purchased software £'000 | Acquisition intangibles £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2020 | 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 |
| Additions | 987 | - | - | 987 |
| Written off | - | - | - | - |
| **At 31 December 2021** | **11,463** | **166** | **4,172** | **15,801** |
| **Amortisation** | | | | |
| At 1 January 2020 | 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 |
| Charge for the year | 946 | 48 | 213 | 1,207 |
| Written off | - | - | - | - |
| **At 31 December 2021** | **8,971** | **150** | **3,538** | **12,659** |
| **Carrying amount** | | | | |
| **At 31 December 2021** | **2,492** | **16** | **634** | **3,142** |
| At 31 December 2020 | 2,451 | 64 | 847 | 3,362 |

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 2021 | **74** | **55** | **358** | **360** | **847** |
| Amortisation | (13) | (27) | (41) | (132) | (213) |
| **At 31 December 2021** | **61** | **28** | **317** | **228** | **634** |

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 | Office & computer equipment £'000 | Fixtures and fittings £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2020 | 927 | 176 | 1,103 |
| Currency impact | (2) | - | (2) |
| Additions | 2 | - | 2 |
| At 31 December 2020 | 927 | 176 | 1,103 |
| Currency impact | - | - | - |
| Additions | 21 | - | 21 |
| **At 31 December 2021** | **948** | **176** | **1,124** |
| | | | |
| **Depreciation** | | | |
| At 1 January 2020 | 882 | 167 | 1,049 |
| Currency impact | (2) | - | (2) |
| Charge for the year | 28 | 4 | 32 |
| At 31 December 2020 | 908 | 171 | 1,079 |
| Currency impact | - | - | - |
| Charge for the year | 16 | 4 | 20 |
| **At 31 December 2021** | **924** | **175** | **1,099** |
| **Carrying amount** | | | |
| **At 31 December 2021** | **24** | **1** | **25** |
| At 31 December 2020 | 19 | 5 | 24 |

The Company has no property, plant and equipment.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021
Continued

## 15. Right of use assets

| Group | Land and buildings £'000 | Office & computer equipment £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2020 | 842 | 30 | 872 |
| Currency impact | (2) | - | (2) |
| Additions | 35 | - | 35 |
| Disposals | (49) | - | (49) |
| At 31 December 2020 | 826 | 30 | 856 |
| Currency impact | - | - | - |
| Additions | - | 20 | 20 |
| Disposals | - | - | - |
| **At 31 December 2021** | **826** | **50** | **876** |
| | | | |
| **Depreciation** | | | |
| At 1 January 2020 | 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 |
| Currency impact | - | - | - |
| Charge for the year | 94 | 14 | 108 |
| Eliminated on disposal | - | - | - |
| **At 31 December 2021** | **256** | **28** | **284** |
| | | | |
| **Carrying amount** | | | |
| **At 31 December 2021** | **570** | **22** | **592** |
| At 31 December 2020 | 664 | 16 | 680 |

## 16. Non-current asset investments

| Company | Investments in subsidiaries £'000 |
|---|---|
| At 1 January 2020 | 7,168 |
| Impairment | - |
| At 31 December 2020 | 7,168 |
| Impairment | - |
| **At 31 December 2021** | **7,168** |

Investments are reviewed annually for impairment. Cash flows projections are prepared covering a three year period, and the terminal value calculated. Key assumptions are; growth rate of 1.0% (2020: 1.0%) used for the terminal value calculation, increases in costs due to inflationary pressures and a discount rate of 13.0% (2020: 15.5%).

The calculations showed the discount rate would need to be increased to over 17% or the cashflow reduced by 29% before an impairment became necessary.

The Company has the following subsidiary undertakings:

| Name | Principal activity | Holding of ordinary shares | Registered |
|---|---|---|---|
| Ikiru People Limited | Sale of computer software and related support services | 100% | England & Wales |
| Ikiru People Pty Limited | Sale of computer software and related support services | 100% | Australia |
| Ikiru People Inc | Sale of computer software and related support services | 100% | USA |
| FCP Internet Limited | Dormant | 100% | England & Wales |
| FCP Internet Holdings Limited | Dormant holding company | 100% | England & Wales |
| GatedTalent Limited | Dormant | 100% | England & Wales |
| ISV Software Limited | Dormant | 100% | England & Wales |
| Woodcote Software Limited | Dormant | 100% | England & Wales |
| Voyager Software Limited | Dormant | 100% | England & Wales |
| Voyager Software (Australia) Pty Limited | Dormant | 100% | Australia |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021
Continued

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 | |
|---|---|---|---|---|
| | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| Trade receivables - net | 442 | 632 | - | - |
| Group receivables | - | - | 28 | 48 |
| Other current assets | 9 | 45 | - | 3 |
| Prepayments and accrued income | 164 | 206 | 17 | 18 |
| | **615** | **883** | **45** | **69** |

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. 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 | 377 | 61 | 32 | 12 | 482 |
| Loss Allowance Provision | 24 | 7 | 6 | 3 | 40 |
| *Expected Loss Rate* | *6%* | *12%* | *20%* | *29%* | |

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

| | £'000 |
|---|---|
| Balance as at 1 January 2020 | 82 |
| Decrease during the year | (7) |
| Balance as at 31 December 2020 | 75 |
| Decrease during the year | (35) |
| **Balance as at 31 December 2021** | **40** |

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

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Current | 377 | 604 |
| Past due date: | | |
| Up to 30 days overdue | 61 | 59 |
| More than 30 days overdue | 44 | 44 |
| | **482** | **707** |

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 Companies 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 Companies, 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 | |
|---|---|---|---|---|
| | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| **Current liabilities** | | | | |
| Trade payables | 385 | 515 | 47 | 47 |
| Group payables | - | - | 339 | 268 |
| Deferred income | 1,401 | 1,758 | - | - |
| Accruals | 561 | 680 | 114 | 172 |
| | **2,347** | **2,953** | **500** | **487** |

| **Non-current liabilities** | **£'000** | **£'000** | **£'000** | **£'000** |
|---|---|---|---|---|
| Deferred Income | 238 | 271 | - | - |

The deferred income in 2021 and 2020 represents the entire balance of contract liabilities from contracts with customers. The movement on this balance is recognised as revenue in the reporting period. The revenue recognised in the reporting period that was included as a contract liability (deferred income) at the start of the period was £1,758,000 (2020: £2,430,000).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021
Continued

## 19. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| Cash balances available on demand | 764 | 1,291 | 21 | 388 |

The balances are shown gross before netting off as allowed by the Group's bank overdraft facility.

## 20. Borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| Current bank borrowings | 300 | 452 | 300 | 364 |
| Current loan note borrowings | - | 9 | - | 9 |
| Non current bank borrowings | 1,050 | 1,350 | 1,050 | 1,350 |
| Non current loan note borrowings | 400 | 399 | 400 | 399 |
| **Total borrowings** | **1,750** | **2,210** | **1,750** | **2,122** |

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

In 2020, the Group obtained two loans under the US Government's payroll protection plan totalling $197,000 and a $15,000 grant from the New Jersey Economic Development Authority. These loans and grant were included in current bank borrowings and were forgiven in 2021 and written off through acquisition related, reorganisation and other items.

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, this loan was fully repaid in 2021.

The Group has an overdraft facility in the UK of £200,000 which was unused at the year-end (2020: 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 | 2020 £'000 | Cashflows £'000 | Lease adjustments £'000 | Non cash movement between current and non current £'000 | Closing 2021 £'000 |
|---|---|---|---|---|---|
| Non current borrowings | | | | | |
| Bank Loan | 1,350 | - | - | (300) | 1,050 |
| Convertible loan note | 399 | - | 1 | - | 400 |
| Lease liabilities | 638 | - | 18 | (96) | 560 |
| **Total non current borrowings** | **2,387** | **-** | **19** | **(396)** | **2,010** |
| | | | | | |
| Current borrowings | | | | | |
| Banking facility | - | - | - | - | - |
| Bank Loan | 452 | (452) | - | 300 | 300 |
| Convertible loan note | 9 | (9) | - | - | - |
| Lease liabilities | 103 | (104) | - | 96 | 95 |
| **Total current borrowings** | **564** | **(565)** | **-** | **396** | **395** |

| | 2019 £'000 | Cashflows £'000 | Lease adjustments £'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** | **36** | **(413)** | **2,387** |
| | | | | | |
| Current borrowings | | | | | |
| Banking facility | 288 | (288) | - | - | - |
| Bank Loan | 335 | (161) | - | 278 | 452 |
| Convertible loan note | 17 | (8) | - | - | 9 |
| Lease liabilities | 82 | (114) | - | 135 | 103 |
| **Total current borrowings** | **722** | **(571)** | **-** | **413** | **564** |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021
Continued

## 21. Share capital

| Allotted, called up and fully paid | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Ordinary shares of 5p each | 983 | 983 |

No share options were exercised in the period (2020: nil).

| Shares issued and fully paid | 2021 Number | 2020 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:

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Less than one year | 125 | 137 |
| One to five years | 411 | 424 |
| More than five years | 231 | 338 |
| | **767** | **899** |

## 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 were three grants of options in 2021, all granted under the EMI scheme. Two in February 2021 at a share price of 22.0p, with one having performance conditions applied, and one in October 2021 with a share price of 22.5p. 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 |
|---|---|---|---|---|---|---|---|---|
| 1 October 2021 EMI | 50,000 | 22.5p | 22.5p | 49% | 3.3 years | 0% | 1.0% | 2.0% |
| 10 February 2021 LTIP/EMI | 450,000 | 22.0p | 22.0p | 49% | 3.3 years | 10% | 1.0% | 2.0% |
| 10 February 2021 EMI | 50,000 | 22.0p | 22.0p | 49% | 3.3 years | 20% | 1.0% | 2.0% |
| 26 Nov 2020 SAYE | 353,000 | 16.0p | 14.4p | 45% | 3.3 years | 15% | 1.0% | 0.5% |

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

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | No of options | WAEP | No of options | WAEP |
| Outstanding at the beginning of year | 1,306,337 | 43.65 | 1,970,005 | 56.33 |
| Granted during the year | 550,000 | 22.05 | 353,000 | 14.40 |
| Exercised during the year | - | - | - | - |
| Forfeited during the year | (674,837) | 47.75 | (1,016,668) | 58.07 |
| Outstanding at the end of the year | 1,181,500 | 31.25 | 1,306,337 | 43.65 |
| Exercisable at the year end | 198,500 | 83.78 | 453,337 | 78.16 |

The Company’s mid-market share price on 31 December 2021 was 22.0p. The average mid- market share price in 2021 was 22.29p.

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 £46,000 (2020: £16,000).

Share options remaining in the schemes are as follows:

| Scheme type | Date of grant | Exercise from | Lapse date | Options remaining | Exercise price (p) |
|---|---|---|---|---|---|
| EMI | 08/07/2013 | 08/07/2016 | 07/07/2023 | 7,000 | 79.50 |
| Unapproved | 08/12/2014 | 08/12/2017 | 07/12/2024 | 10,000 | 97.00 |
| EMI | 08/12/2014 | 08/12/2017 | 07/12/2024 | 96,500 | 97.00 |
| EMI | 03/02/2015 | 03/02/2018 | 02/02/2025 | 25,000 | 90.50 |
| EMI | 09/11/2017 | 09/11/2020 | 08/11/2027 | 60,000 | 58.00 |
| EMI | 03/07/2019 | 03/07/2022 | 02/07/2029 | 120,000 | 33.00 |
| Sharesave | 26/11/2020 | 01/01/2024 | 01/07/2024 | 353,000 | 14.40 |
| EMI | 10/02/2021 | 10/02/2024 | 09/02/2031 | 40,000 | 22.00 |
| EMI (LTIP) | 10/02/2021 | 10/02/2024 | 09/02/2031 | 420,000 | 22.00 |
| EMI | 01/10/2021 | 01/10/2024 | 30/09/2031 | 50,000 | 22.50 |
| | | | | **1,181,500** | |

The weighted average remaining contractual life of options at 31 December 2021 was 6.11 years (2020: 5.22 years).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021
Continued

### 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 2021, the charge in respect of the LTIP schemes, which are share based and require separate disclosure under IFRS 2, was £18,000 (2020: credit £7,000).

## 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 2021 was:

| At 31 December 2021 | 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) | 451 | - | 28 | - |
| Cash and cash equivalents | - | 764 | - | 21 |
| | **451** | **764** | **28** | **21** |

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 |
| | **677** | **1,291** | **51** | **388** |

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

| At 31 December 2021 | 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) | 702 | - | 484 | - |
| Borrowings - convertible loan note | - | 400 | - | 400 |
| Borrowings - bank | - | 1,350 | - | 1,350 |
| Lease liabilities | 655 | - | - | - |
| | **1,357** | **1,750** | **484** | **1,750** |

| 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 | - |
| Borrowings - convertible loan note | - | 409 | - | 409 |
| Borrowings - bank | - | 1,802 | - | 1,802 |
| Lease liabilities | 741 | - | - | - |
| | **1,580** | **2,211** | **464** | **2,211** |

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.

Debt ageing and collections are monitored on a regular basis and for new customers deposits are usually required. Some trade receivables are past due as at the reporting date. The company bases its provisions on trade receivable balances based on the expected credit loss model ('ECL') as required by IFRS. Information on financial assets past due are included in note 17.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The Group has no significant concentration of credit risk. The Group's maximum exposure to credit risk at the reporting date is represented by the carrying value of financial assets, as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| Trade and other receivables (current assets) | 451 | 677 | 28 | 51 |
| Cash and cash equivalents | 764 | 1,291 | 21 | 388 |
| | **1,215** | **1,968** | **49** | **439** |

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021
Continued

As at 31 December 2021, the Group and Company's financial liabilities (excluding deferred income, payroll taxes, VAT and similar taxes) have contractual cashflows as summarised below, maturity of lease liabilities is set out in note 22:

| *Group*<br>**31 December 2021** | Carrying amount £'000 | < 1 year £'000 | 1-2 years £'000 | 2-5 years £'000 | >5 years £'000 |
|---|---|---|---|---|---|
| Trade and other payables (current liabilities) | 702 | 702 | - | - | - |
| Trade and other payables (non-current liabilities) | - | - | - | - | - |
| Borrowings | 1,750 | 300 | 300 | 1,150 | - |
| Bank facility | - | - | - | - | - |
| | **2,452** | **1,002** | **300** | **1,150** | **-** |

| **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** |

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*<br>**31 December 2021** | Carrying amount £'000 | < 1 year £'000 | 1-2 years £'000 | 2-5 years £'000 | >5 years £'000 |
|---|---|---|---|---|---|
| Trade and other payables (current liabilities) | 484 | 484 | - | - | - |
| Trade and other payables (non-current liabilities) | - | - | - | - | - |
| Borrowings | 1,750 | 300 | 300 | 1,150 | - |
| Bank facility | - | - | - | - | - |
| | **2,234** | **784** | **300** | **1,150** | **-** |

| **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 facility | - | - | - | - | - |
| | **2,675** | **925** | **300** | **900** | **550** |

### (iv) Foreign currency risk

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

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

At the year end, the Group had assets totalling £186,000 and £nil liabilities in Euros (2020: assets totalling £187,000 and liabilities totalling £4,000), assets totalling £416,000 and liabilities totalling £319,000 denominated in US Dollars (2020: assets totalling £537,000 and liabilities totalling £336,000) and assets totalling £495,000 and liabilities totalling £181,000 denominated in Australian Dollars (2020: assets totalling £585,000 and liabilities totalling £634,000). If each of the exchange rates strengthened by 5%, the impact on the statement of comprehensive income would be as follows:

| | Group | |
|---|---|---|
| | 2021 £'000 | 2020 £'000 |
| Euros | 9 | 22 |
| US Dollars | 5 | 13 |
| Australian Dollars | 15 | 8 |
| | **29** | **43** |

At the year end, the Company had liabilities totalling £nil denominated in Euros (2020: £nil), assets totalling £nil denominated in US Dollars (2020: assets totalling £8,000) and assets totalling £nil denominated in Australian Dollars (2020: assets totalling £26,000).

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 | |
|---|---|---|
| | 2021 £'000 | 2020 £'000 |
| Euros | - | - |
| US Dollars | - | - |
| Australian Dollars | - | 1 |
| | **-** | **1** |

**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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021
Continued

| | Note | 2021 £'000 | 2020 £'000 |
|---|---|---|---|
| Total borrowings | 20 | 1,750 | 2,211 |
| Less cash or cash equivalents | | (764) | (1,291) |
| **Net borrowings** | | **986** | **920** |
| Total equity | | 3,306 | 3,370 |
| Total capital gearing ratio | | 29.8% | 27.3% |

**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 | |
|---|---|---|---|---|
| | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| **Loans and receivables** | | | | |
| Cash and cash equivalents | 764 | 1,291 | 21 | 388 |
| Trade and other receivables | 451 | 677 | 28 | 51 |
| | **1,215** | **1,968** | **49** | **439** |
| **Financial liabilities held at amortised cost** | | | | |
| Trade and other payables | 702 | 839 | 484 | 464 |
| Convertible loan | 400 | 408 | 400 | 408 |
| CBIL loan | 1,350 | 1,500 | 1,350 | 1,500 |
| Bank borrowings | - | 302 | - | 302 |
| | **2,452** | **3,049** | **2,234** | **2,674** |

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 Chief Financial Officer and to the audit committee.

## 25. Subsequent events

There are no subsequent events to report following the end of the reporting period.

## 26. Control

The directors do not consider there to be any controlling party.

## 27. Related party transactions

### Group

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 (2020: £nil).

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

| | |
|---|---|
| Giles Fearnley | £75,000 |
| Jason Starr | £24,250 |
| Julie Pomeroy | £10,000 |
| Simon Warburton | £8,000 |
| Paul Mather | £7,500 |

Interest outstanding at the year end due to key management was £2,000 (2020: £5,000).

### Company

The Company has a related party relationship with its subsidiaries, its directors, and other employees of the Company with management responsibility.

| | Management charge received | | Management charge owed | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Ikiru People Limited | 680,000 | 691,000 | 338,000 | 226,000 |
| Ikiru People Inc | 89,000 | 91,000 | 8,000 | 8,000 |
| Ikiru People Pty | 45,000 | 45,000 | 8,000 | 26,000 |

FCP Internet Holdings Limited was owed by the company £2,000 at the year end (2020: owed by the company £2,000)

Woodcote Software Limited owed the Company £13,000 (2020: £13,000)

## 28. Dividends

No dividends were paid in 2021 and 2020. No final dividend in respect of the year ended 31 December 2021 is proposed.

# DIRECTORS AND ADVISERS

| | |
|---|---|
| **Directors** | G R Fearnley - Non-Executive Chairman<br>J P Pomeroy - Non-Executive<br>J S Starr - Chief Executive<br>P Mather - Chief Operations Officer<br>S Warburton - Chief Technology Officer<br>S Hammond - Chief Engineering Officer<br>J M Curd - Chief Financial Officer |
| **Secretary** | J P Pomeroy (until 30 September 2021)<br>J M Curd (from 1 October 2021) |
| **Company number** | 4578125 |
| **Registered office** | 12 Cedarwood, Crockford Lane,<br>Chineham Business Park,<br>Basingstoke, RG24 8WD |
| **Independent auditor** | Crowe U.K. LLP<br>Aquis House<br>49-51 Blagrave Street<br>Reading<br>RG1 1PL |
| **Principal bankers** | HSBC Bank Plc<br>Basingstoke Commercial Centre<br>8 London Street<br>Basingstoke<br>RG21 7NU |
| **Solicitors** | Blake Morgan LLP<br>Apex Plaza<br>Forbury Road<br>Reading RG1 1AX |
| **Nominated adviser** | WH Ireland Limited<br>24 Martin Lane<br>London<br>EC4R 0DR |
| **Broker** | WH Ireland Limited<br>24 Martin Lane<br>London<br>EC4R 0DR |
| **Registrars** | Link Assets Services<br>The Registry<br>34 Beckenham Road<br>Beckenham<br>Kent BR3 4TU |

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DSG
Dillistone Group Plc

12 Cedarwood, Crockford Lane,
Chineham Business Park,
Basingstoke
RG24 8WD

Tel: +44 (0)20 7749 6100