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Dillistone Group Plc

Annual Report
for the year ended **31 December 2016**

Stock code: **DSG**

Empowering recruitment globally through technology

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Welcome to the Dillistone Annual Report 2016

Dillistone Group Plc is a global leader in the supply of technology solutions and services to the recruitment industry worldwide.

We provide software and services to recruitment firms and recruiting teams within major corporations. Across our subsidiaries, we work with over 2,000 firms in over 60 countries.

Our two divisions are Dillistone Systems and Voyager Software. Dillistone Systems specialises in the supply of software and services into executive level recruitment teams. Voyager Software's clientele are primarily involved in contingent recruitment, including permanent placement, contract placement and the provision of temporary staff.

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

"Product development continues to be a priority with a number of upgrades and new product launches successfully achieved in 2016. The year delivered a record level of revenues, and equally importantly, recurring revenues.

"Overall, despite what we consider to be short term economic turbulence, the Group believes that it is in a strong position in its core markets and is confident of future progress. As a result, we are delighted to propose an increase in our final dividend of 1.8% to 2.8p."

Dr Mike Love
Non Executive Chairman

Look out for the following definitions throughout this report:

1. Adjusted operating profit is statutory operating profit before acquisition costs, related intangible amortisation, movements in contingent consideration and other one-off costs. See note 2.
2. Adjusted EBITDA is adjusted operating profit with depreciation and amortisation added back.
3. Net cash funds are cash and cash equivalents held less bank borrowings.
4. Adjusted basic EPS is computed from statutory profits after tax adjusted to exclude the post-tax effect of acquisition costs, related intangible amortisation, movements in contingent consideration and other one-off costs.

Highlights

Adjusted profit before tax

↑3%

2016	£1.46m
2015	£1.42m
2014	£1.82m
2013	£1.80m
2012	£1.68m

Recurring revenues

↑6%

2016	£7.03m
2015	£6.61m
2014	£5.93m
2013	£5.27m
2012	£4.53m

- › Revenues up 6% from 2015 to £9.963m.
- › Record level of recurring revenues of £7.027m, up 6% from 2015.
- › *Recurring revenues*, representing 71% of Group revenue, cover approximately all of administrative expenses before acquisition related and one-off costs.
- › Adjusted operating profit for the year up 3% to £1.463m.
- › Profit after tax for the year is £0.526m after a pre-tax one-off amortisation adjustment of £0.720m.
- › Adjusted basic EPS fell slightly to 7.10p (2015: 7.26p).
- › Basic EPS fell to 2.68p (2015: 6.20p) reflecting the amortisation adjustment.
- › Final dividend of 2.8p per share recommended (2015: 2.75p).
- › Net cash funds of £1.379m (2015: £1.270m).
- › Dillistone Systems division reports strong turnaround in new business wins with over 100 new client firms signing up in period with a total contract value of over £1.000m. Revenue up 5% to £4.858m.
- › Voyager Software division saw an 18% increase in new business wins in 2016; launched ISV Online, and the first of a suite of mobile apps. Revenues grew 6% to £5.105m.

Read more on **Group Performance**
on pages 8 to 14

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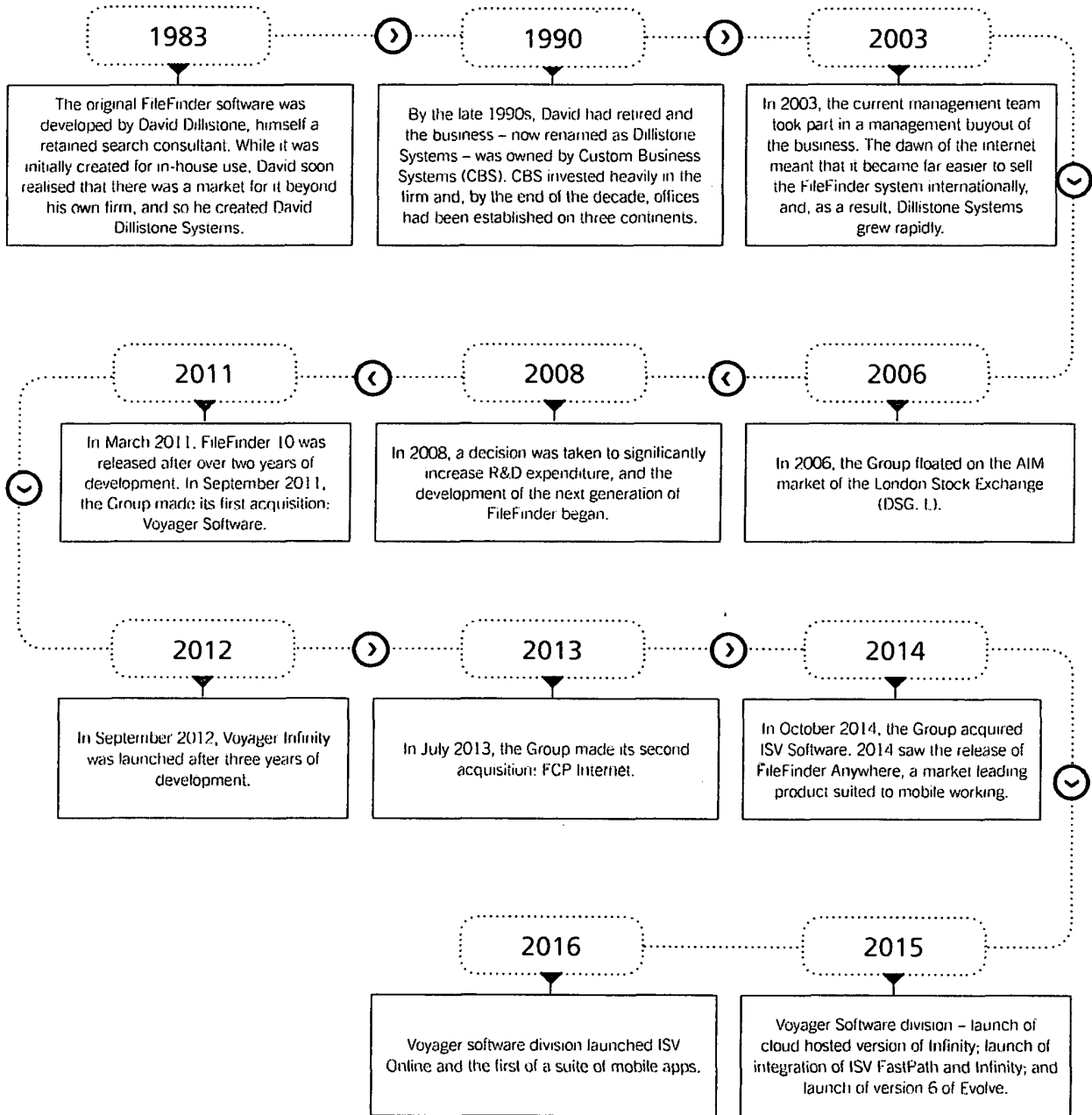
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Investor relations website

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

Timeline



Strategic Report

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Dillistone Group at a Glance

For the year ended 31 December 2016

Dillistone Group Plc is a global leader in the supply of technology solutions and services to the recruitment industry. Operating across 60 countries, working with over 2,000 firms, we are made up of two divisions.

Dillistone Systems division

Dillistone Systems is a leading global supplier of technology and services to executive search firms and to in-house search teams at major corporations and not-for-profit organisations. The Division's principal product is the FileFinder Anywhere suite, which is typically delivered from the cloud via a range of Apps. The Division is headquartered in the UK, but has offices in the United States, Australia and Germany and serves clients in more than 60 countries, generating more revenue from outside the UK than from its home market. It employs around 60 people.

Dillistone Systems is widely acknowledged to work with more executive search firms than any comparable supplier, and is also considered to be a thought leader in this space. As a result, the Division has also moved beyond the supply of software, and provides additional services including training in executive search techniques, marketing and advertising services, and also runs regular events which are open to both client and non-client firms.

Dillistone Systems division Products

FileFinder is designed specifically for the executive recruiting market with FileFinder Anywhere being the latest generation of the suite. FileFinder Anywhere is available in two forms: Essentials and Premium.

FileFinder is an executive search database, CRM system, research tool, report writer and project management solution all rolled into one. It is designed to support every element of the search process.

The product is unique in its market, in that it is available to purchase or to rent, and can be accessed via a Desktop App, a full Browser App, a Mobile App or through Microsoft Outlook (desktop or web versions).

Voyager Software division

Voyager Software itself became a part of the Dillistone Group in September 2011. It has always provided end-to-end recruitment solutions to the recruitment sector, typically those working on a contingency basis, and continues to do so to this day. In September 2012, Voyager Software launched its latest generation of recruitment solutions with its Infinity product. Infinity is designed to improve the performance and efficiency of recruitment businesses specialising in permanent, contract and temporary roles. With automation at its heart, it meets the demands of flexibility and functionality required by these recruitment firms. Alongside Voyager Software's VDO product, for pure fast paced temporary agencies, and Mid-Office, the pay-and-bill solution for the back office, the business covers the whole contingency recruitment space. In 2013, the Group acquired FCP Internet, suppliers of the evolve™ SaaS product, and this has subsequently been integrated into the Voyager Software Division. In October 2014, a further acquisition, ISV Software – a supplier of skills testing and training services, was also incorporated into the Division. Today, the Voyager Software Division's products are used in over 20 different countries by many thousands of users in different-sized recruitment businesses. The Division has offices in the UK and Australia and employs around 60 people.

Voyager Software division Products

Voyager front office:

Voyager Infinity manages the work of recruiters working

to fill permanent and longer-term contract/ temporary vacancies delivering measurable performance efficiencies and audit trails.

Voyager Infinity SaaS has all of the great features of Infinity available as a managed service on the Azure Cloud with affordable set-up and affordable monthly cost.

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

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

Voyager mid and back office:

Voyager Mid-Office Voyager's flexible Pay & Bill solution, automates the processing of large volumes of timesheets and payments to numerous clients and candidates.

Voyager Bureau enables bureaus to subcontract back-office operations for multiple client recruitment companies on a single platform.

Evolve Through FCP Internet, the division also provides its evolve™ Solution. evolve™ has been designed to deliver an effective workflow solution for all sizes and types of recruitment business. It is delivered only as a SaaS product.

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

Chairman's Statement

For the year ended 31 December 2016

"The business is committed to maintaining its policy of investing in its products and services whilst rewarding its shareholders."

Dr Mike Love
Non-Executive Chairman

Revenue analysis 2016

Recurring	71%
Non recurring	24%
3rd Party	5%

Product development continues to be a priority with a number of upgrades and new product launches successfully achieved in 2016. The Group delivered its best ever revenue performance with revenue up 6% to £9.963m.

This performance was impacted by the Brexit vote in the UK, which reduced demand in our home markets while weakening Sterling and, therefore, increasing the value of our overseas sales.

Underlying profit before tax, acquisition costs and one-off adjustments rose 3% to £1.458m. As mentioned in our pre close statement, the Group has undertaken a review of its accounting judgements in respect of the amortisation of platform development costs and subsequently decided to write these costs off over a period of five years, rather than a period of five to ten years, resulting in a one-off adjustment of £0.720m. Accordingly, operating profit fell to £0.417m with reported profit after tax falling to £0.526m. This is a non-cash accounting adjustment and brings our accounting treatment into line with industry practice. The resulting basic EPS for the period was 2.68p.

Dividends

The Board was pleased to increase the interim dividend payment in September 2016 to 1.375p per share (2015: 1.35p) and has recommended an increased final dividend of 2.8p per share (2015: 2.75p), subject to shareholder approval, payable on 27 June 2017 to holders on the register on 2 June 2017. Shares will trade ex dividend from 1 June 2017. This takes the total dividend based on the 2016 results to 4.175p (2015: 4.10p), and gives a yield of 4.9% on a share price of 84.5p.

This represents our fifth successive year on year increase in the dividend, in line with our policy of progressing dividend payments, subject to the cash needs of the business. The business is committed to maintaining its policy of investing in its products and services whilst rewarding its shareholders.

Staff

Our staff are fundamental to our success. It is through their efforts, commitment and determination that we continue to be a leading technology provider in the sectors we serve. On behalf of the Board I would like to take this opportunity to thank all of our staff.

Outlook

We are pleased to note that total revenue in Q1 2017 is ahead of the same period in 2016 despite turbulent markets for many of our recruitment clients.

Although the Group derives revenue from clients around the Globe, 72% of our revenues in 2016 were derived from the UK recruitment market and the decision of the UK to "Brexit", taken in June 2016, has had an impact on this sector. In turn, this has impacted our new business sales: while incoming orders in the first quarter of 2016 benefited from a confident UK economy, this has not been the case in the second half of 2016 and the first quarter of 2017.

While new business orders may have been impacted by economic turbulence, our recurring revenue base has reached record levels. This is true for both of our divisions and these long term recurring revenues are expected to cover the majority of our administrative costs and thereby giving us confidence in the future of the Group.

Furthermore, we are anticipating an improvement in orders in the latter months of 2017 and the early part of 2018 as the incoming General Data Protection Regulation ("GDPR") rules, which come into effect on 25 May 2018 and which will require recruitment firms to take steps in the run up, are likely to have a significant impact on the recruitment technology space. We believe that this impact will be positive for the Group.

Technological innovation is key to our long term success. In addition to the ongoing development of our existing product range, the Group is investing in the creation of an exciting new product. While development of this product has begun, it will not generate significant revenue prior to 2018, and although the majority of development costs are expected to be capitalised other costs will be expensed in 2017. Despite the increased expenditure, we believe that this product will have a significant positive impact in the future. We are currently appraising debt funding arrangements for the completion and launch of this new product.

Overall, despite what we consider to be short term economic turbulence, the Group believes that it is in a strong position in its core markets and is confident of future progress. As a result, we are delighted to propose an increase in our final dividend of 1.8% to 2.8p (2015: 2.75p).

Dr Mike Love
Non-Executive Chairman
25 April 2017

Q&A with James Cooper

Case Study

In each annual report we highlight how one of our solutions is helping a client to generate real business efficiencies. Last year our case study looked at how White Knight Recruitment is taking advantage of two of our products – Infinity and FastPath. This year we are looking at Damhurst & Co.

Damhurst & Co is a retained executive search company established in 2016, focusing on mid-senior appointments in the insurance and reinsurance sector.

After using a competitive product for years at his previous firm, company director James Cooper reviewed other executive search software options, and decided that FileFinder Anywhere was the solution best meeting his requirements.

Six months after going live, James shares what affected his decision and his initial impressions as a FileFinder user.

Dillistone Systems: Why did you decide to invest in specialised executive search software?

James Cooper: I believe that executive search and recruitment are very different, therefore they have different requirements when it comes to technology. As a research-driven business, data is paramount for us – so we needed to find the best system, tools and people to help us collect and use data for our search assignments. After reviewing the market, FileFinder Anywhere and the Dillistone team seemed to tick all the boxes!

Dillistone Systems: How was the implementation process?

James Cooper: Implementing FileFinder Anywhere was a very easy and enjoyable process, mostly because of the people we have had to deal with at Dillistone Systems – in particular, I want to thank your projects and training teams for their efforts, and for being very helpful during the whole transition period.

Dillistone Systems: Six months in, what are your impressions of FileFinder Anywhere?

James Cooper: FileFinder Anywhere is a sophisticated piece of software. Previously, I used a well-known competitive product, and enjoyed using it very much – however, now that I am using FileFinder Anywhere, I would not swap back for love or money! You have to invest some time in learning how to use the product but it is all worthwhile in the end – and again, the training team is there to help and they are doing a superb job.

Dillistone Systems: How do you rate our support service?

James Cooper: The technical support service is anything but formulaic. The support team really does listen to you, they take time to understand what the issue is, and after a couple of conversations, we have been able to match our processes to FileFinder. I can now run reports showing the entire scope of my projects, which is very helpful.

Dillistone Systems: Was your decision to invest in FileFinder Anywhere the right one for your business?

James Cooper: 100% yes! It has definitely impacted our productivity and our ability to serve our clients better.

Dillistone Systems: Would you recommend FileFinder Anywhere to other executive search firms?

James Cooper: Yes, I would... but only if they are not operating in our sector!

Chief Executive Officer's Review

For the year ended 31 December 2016

“This strategy is made possible through our commitment to product development.”

Jason Starr
Chief Executive

Divisional revenue analysis
2016

Dillistone	49%
Voyager	51%

Dillistone Group Plc is a global leader in the supply of technology solutions and services to the recruitment sector worldwide.

Strategy and objectives

The Group's strategy is to grow the business both organically and through acquisition. This strategy is made possible through our commitment to product development, which ensures that the business continues to command a leading role in all of the markets in which it operates.

Our acquisition strategy typically entails consideration of businesses offering:

- products that would further increase market share in the Group's core markets;
- legacy applications, where clients could be transferred to our modern suite of products; or
- complementary applications, which may be cross sold to clients of the Group.

The Group's objectives are principally to:

- ensure our products meet the needs of the recruitment sector through continual investment and development;
- be a leading player in all of the markets we serve;
- develop our staff delivering progressive career development;
- increase our profitability and deliver increased shareholder value year on year in conjunction with a progressive dividend policy.

Key Performance Indicators (KPIs)

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

	FY 2015 £'000	FY 2016 £'000	measure used by management	Met/Not met
Total revenues	9,437	9,963	year on year growth	met
Recurring revenues	6,606	7,027	year on year growth	met
Non recurring revenues	2,333	2,370	year on year growth	met
Adjusted profit before tax	1,416	1,458	year on year growth	met
Cash less borrowings	1,270	1,379	sufficient cash resources maintained	met

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

In addition, the Board monitors order levels and employee numbers as well as performance against budget.

Our business model

The business is split into two divisions, Dillistone Systems and Voyager Software. Dillistone Systems specialises in the supply of software and services into executive-level recruitment teams. Voyager Software's clientele are primarily involved in contingent recruitment, including permanent placement, contract placement and the provision of temporary staff. Across our subsidiaries, we work with over 2,000 firms in approximately 60 countries. Further details of the products we supply are given in the 'At a Glance' section.

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

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

There is a continuing move towards our Cloud delivery services.

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



Further details of the products we supply are given in the 'At a Glance' section on pages 4 and 5

Chief Executive Officer's Review continued

For the year ended 31 December 2016

Group review of the business

2016 saw recurring revenues grow 6% to £7,027m (2015: £6,606m) reflecting, in part, a foreign currency impact from Sterling weakening in 2016 (impact 3%). Non-recurring revenues increased 2% to £2,370m (2015: £2,333m). As a result, overall revenues increased by 6% to £9,963m (2015: £9,437m) with recurring revenues representing 71% of Group revenues (2015: 70%). Overheads have increased across the business mainly as a result of the one-off adjustment in respect of the amortisation of platform development costs, referred to below, with an adverse impact on results of £0.720m. Clearly, this adjustment is an accounting change in an estimate and is cash neutral. Adjusted EBITDA saw a 6% increase to £2,433m (2015: £2,285m). Operating profit before acquisition related items and one-off adjustments increased by 3% to £1,463m (2015: £1,424m) and pre-tax profits before acquisition related items and one-off adjustments also increased by 3% to £1,458m (2015: £1,416m). Operating profit for the year was £0,412m (2015: £1,108m) and profit for the year was £0,526m (2015: £1,212m).

Divisional Reviews

Dillistone Systems

The Dillistone Systems division is primarily focused on providing technology solutions to the executive search market via our range of "FileFinder" applications. This client group is made up of both executive search firms and executive search teams in major organisations.

Dillistone Systems' head office is in London and it has offices in the US, Germany and Australia. The Division accounts for 49% (2015: 49%) of the Group's revenue and it saw revenue grow 5% to £4,858m (2015: £4,620m).

The Division had a difficult time in 2015 and we are delighted to see it return to growth in 2016. Our investment in product development led to a number of key new contract wins. We are delighted to report that – to the best of our knowledge – the largest single implementation on an Executive Search technology platform in the US in 2016 was our FileFinder Anywhere product. This implementation was by an existing client who chose to upgrade to our latest suite. Furthermore, we believe that the largest single implementation of an Executive Search technology platform in Europe in 2016 was also our FileFinder Anywhere product which was implemented by a firm which replaced a legacy tool with our technology, choosing to become a client for the first time.

The business signed up over 100 new clients in the period, with clients switching from direct competitors including Bullhorn, Cluen and Invenias, and we believe that our product has now returned to a position of market leadership.

Unfortunately, while our new business performance was good, the economy impacted on licence revenues from our existing client base, a large proportion of which are UK based. We typically enjoy additional sales from these firms as they grow, but in 2016 a larger proportion of those firms reduced licences rather than taking on additional seats.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 1% to £1,434m (2015: £1,425m). As discussed above, the Group reviewed its amortisation policy for capitalised development costs to bring it more into line with industry practice by writing off all such costs over five years rather than a range of five to ten years. The impact of this on the Dillistone division was £0,600m, increasing the total depreciation and amortisation charge to £1,229m (2015: £0,534m). Accordingly, operating profit fell 77% to £0,205m (2015: £0,891m).

We continue to invest in the FileFinder Anywhere product suite, which has included the release of a client portal, improved reporting functionality, improvements in our mobile offering and architectural enhancements to improve both performance and scalability.

Voyager Software

Voyager Software is a provider of technology products targeted at the entire recruitment landscape, from front office to back office and bureaus, and includes both recruitment management systems and pre-employment skills testing technology.

In 2016, the Voyager Software division accounted for 51% (2015: 51%) of Group revenues. The Division's revenues increased by 6% to £5,105m (2015: £4,831m). Segmental operating profit before amortisation and depreciation increased by 14% to £1,093m (2015: £0,956m). The impact of the change in amortisation policy for capitalised development was £0,120m, increasing the total depreciation and amortisation charge to £0,461m (2015: £0,327m). Divisional operating profit remained broadly unchanged at £0,637m (2015: £0,629m).

2016 saw some major developments in the Division including:

- Development of Infinity Connect – A new mobile companion app for the popular Infinity SaaS solution, available for both iOS and Android devices.
- Additional functionality release in Infinity (inc. Infinity SaaS) for the temporary recruitment sector.
- Further enhanced scalability of Evolve through deployment on Amazon Web Services and implementation of Elastic Searching.
- Launch of ISV.Online - our new candidate skills testing platform.

The Board is confident that both Divisions have strong futures.

Financial risk management

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

Interest rate risk

The Group is exposed to interest rate risk through its floating rate borrowings and through its management of retained cash. The Group monitors its exposure to interest rate risk when borrowing and investing its cash resources.

Credit risk

The Group has a large customer base in excess of 2,000 customers and is not dependent on a small number of customers. Accordingly, the Group does not believe it is exposed to significant credit risk. In addition, it only places money with banks with strong credit ratings.

Exchange risk

The Group is exposed to translation and transaction foreign exchange risk. The Group's foreign operations primarily trade in their own currencies, reducing the transaction risk. As a result the main foreign exchange transactional exposure arises when repatriating profits. The Group only seeks to remit cash when required in the UK and it usually has some flexibility on timing of such appropriations to minimise any exchange losses. The Group is, however, exposed to translation risks on net assets held.

Liquidity risk

Although the Group has some borrowings, it maintains positive cash resources and has sufficient available funds for its operations and planned expansion of its existing activities.

Principal risks and uncertainties

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

Risk	Potential adverse impact	Mitigation
Economic risk	The recruitment industry has a reputation for being vulnerable to the cyclical nature of the economy. This can impact significantly on non-recurring revenue and to a lesser extent recurring revenue.	The Company operates globally and so is not reliant on one economy. It enjoys a high % of recurring revenues. Acquisitions have increased the exposure to the UK economy. Future acquisitions may be overseas. In a downturn there may be a reduction in new permanent hires which may be replaced by temporary hires. The temporary recruitment market is potentially anti-cyclical. The Group's products support both permanent and temporary hires.
New product risk	All technology suppliers need to develop new products and applications and there is always a risk that new products may lead to issues. This could damage the Group's reputation and result in loss of new orders and therefore reduce revenue growth. It could also result in claims against the company. The cost and time frame for developing and releasing new products could be a bigger drain on resource than built into budgets and forecasts.	Products are tested pre-launch, and launch and implementation strategies developed to minimise risks. The Development plan is regularly reviewed by management and the Board.
Attrition of customer base	Failure to attract new customers, or the loss of existing customers, may have a detrimental effect on the Group's ability to generate revenues.	Actively manage existing customer relationships through account management structures and promptly dealing with issues. The Group continues to invest in new products with new features being added.
Competitor activity	The market for recruitment software is extremely fragmented with a large number of small suppliers operating in all of the Group's geographical markets. Very few of these suppliers have the necessary financial, technical and marketing resources to be able to develop their competitive position. However, the competition may intensify through consolidation or new entrants to the market. Some competitors offer a broader product range enabling them to compete across the whole of the sector. The businesses can easily lose market share if its products are not well regarded either from being "out of date" or "buggy". Some firms may try to compete on price, particularly if the market deteriorates.	The Group has strong customer relationships and uses account management to keep in touch with clients. The Group continues to invest in its product development and 2016 saw the addition of temp functionality to Infinity and the launch of a stand-alone browser version of FF. ISV Online was also launched. The Group continues to innovate and provide solutions to client needs. There is a focus on fixing bugs and issues as they arise to ensure the user experience is good. Pricing strategies are reviewed on a regular basis. The Group continues to look into developing new products and additional features to more readily compete.

Chief Executive Officer's Review continued

For the year ended 31 December 2016

Risk	Potential adverse impact	Mitigation
Business continuity risks associated with information systems, operational failure, data security and cyber security risks	<p>A failure of systems or failure of hosting facilities leading to loss of customer confidence in the Group being able to deliver their requirements.</p> <p>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.</p> <p>External attacks on servers could result in lost or corrupted data and loss of reputation.</p>	<p>Each division is reliant on data centres. Work ongoing to move data centres to the cloud through Amazon and Azure.</p> <p>Plans are regularly reviewed on how to improve data centre management as the business grows worldwide.</p> <p>Data backups occur daily and the necessary test carried out on a regular basis to ensure data can be restored.</p> <p>Penetration testing helps minimise the risk of attacks.</p>
Employee engagement and retention	<p>Capability to meet the demands of the markets in which the Group operates and competes effectively with other IT suppliers is largely dependent on the skills, experience and performance of staff.</p> <p>Failure to attract or retain high calibre employees could seriously impede future growth and present performance.</p> <p>Reliability on small group of people especially in parts of the business.</p>	<p>To retain staff the Group operates competitive remuneration packages.</p> <p>Appraisals are carried out which also consider individual's personal development.</p> <p>Cross training being carried out where possible.</p>
Ability to finance acquisitions and new development	<p>The Group wants to grow either by acquisition or through development of its own products. This requires that it will have the ability to fund such expansion either via borrowing or placement, or through the availability of its own cash resources.</p>	<p>Ongoing discussions with investors and potential investors to build a following in Dillistone.</p>
Management capacity	<p>Size of business means that management tends to be stretched and under resourced. As the business grows there may be insufficient support to ensure that the growth is effectively managed and integrated.</p>	<p>Investment in additional management in 2016 at Voyager and additional finance resource. In 2017 we anticipate a further strengthening of product development management capability.</p>
FX	<p>The Group has substantial operations in both the UK and overseas. Profits are exposed to variations in exchange rates thereby impacting on reported profits.</p>	<p>There is usually some element of natural hedge in the currencies, although if Sterling strengthens against all currencies it can have a negative impact on results.</p>
Brexit	<p>Potential economic uncertainty could lead to a reduction in orders in the short to medium term, impacting adversely on the Group's results.</p> <p>Clearly, any changes brought about by Brexit are likely to be implemented over the next 2 years now that Article 50 has been invoked, which might introduce changes to the UK-EU trading arrangements.</p> <p>This may impact where recruiting individuals with European languages requirement. It may increase the time and difficulty in recruiting skilled employees.</p> <p>'Brexit' has had an impact on exchange rates, which are already a significant risk.</p>	<p>Clients usually choose best in class and already buy from global firms. The Group continues to monitor implications and is continually reviewing its products and pricing to ensure it stays competitive.</p> <p>We deal with visa requirements for some staff already.</p>
Data Protection legislation	<p>Ensure that all group products comply with international Data protection legislation and demonstrate to clients that they do.</p>	<p>Work being carried out to ensure data is secure and protected at appropriate levels.</p>

Financial Review

For the year ended 31 December 2016

“The Group finished the year with cash funds of £1.537m (2015: £1.595m) and bank borrowings of £0.158m (2015: £0.325m).”

Julie Pomeroy
Finance Director

Profit after tax 2016

2016	£0.52m	
2015		£1.21m
2014	£1.15m	
2013		£1.23m
2012		£1.24m

Total revenues increased by 6% to £9.963m (2015: £9.437m) with recurring revenues increasing by 6% to £7.027m (2015: £6.606m) while non-recurring revenues saw a 2% increase to £2.370m (2015: £2.333m).

Third party revenue amounted to £0.566m in the period (2015: £0.498m). Revenue has benefitted from the weakening value of Sterling. Using 2015 exchange rates, revenues in 2016 would have been £9.651m.

Cost of sales increased by 13% to £1.478m (2015: £1.313m), mainly due to investment in cloud based hosting facilities through Azure and Amazon.

Administrative costs, excluding acquisition related items, depreciation and amortisation, rose 4% to £6.052m (2015: £5.839m). The Group has reviewed its amortisation policy for capitalised development costs to bring it more into line with industry practice by writing off all such costs over five years rather than a range of five to ten years. This has resulted in a one-off adjustment of £0.720m in the year, where the main impact was in the Dillistone division. Total depreciation and amortisation, including the one-off adjustment, increased to £1.690m (2015: £0.861m).

Acquisition related administrative costs totalled £0.331m (2015: £0.316m), and were in respect of the amortisation of intangibles arising on the Voyager, FCP and ISV acquisitions and movement in the estimation of contingent consideration. Finance cost includes £0.015m (2015: £0.028m) relating to the unwinding of the discount in respect of the contingent consideration.

Recurring revenues covered 100% of administrative expenses before acquisition related and one-off costs (2015: 99%). Excluding depreciation and amortisation of our own internal development, the administrative costs are covered 116% (2015: 113%) by recurring revenues.

There is a tax credit in 2016 of £0.134m (2015: credit £0.140m). The 2016 credit reflects the significant R&D tax credits available to both Dillistone Systems and Voyager Software divisions, the change in deferred tax rate from 18% to 17%, as well as the impact of the one-off adjustment in respect of amortisation of development costs and adjustments to prior year computations. These benefits are partially offset by the higher rates of corporation tax that are payable overseas. The acquisition related items tax credit reflects the reduction in deferred tax that arises as amortisation is charged in the profit and loss account.

Profits for the year before acquisition related and other one-off items fell 2% to £1.395m (2015: £1.419m) as 2015 adjusted profits benefitted from a tax credit of £0.003m (2016: tax charge of £0.063m). Profits for the year after acquisition related and other one-off items fell 57% to £0.526m (2015: £1.212m). Basic earnings per share (EPS) fell to 2.68p (2015: 6.20p). Fully diluted EPS fell to 2.62p (2015: 6.00p). Adjusted basic EPS fell 2% to 7.10p (2015: 7.26p).

Capital expenditure

The Group invested £1.126m in property, plant and equipment and product development during the year (2015: £1.045m). This expenditure included £1.056m (2015: £0.961m) spent on intangible related costs.

Financial Review continued

For the year ended 31 December 2016

Trade and other payables

As with previous years, the trade and other payables include income which has been billed in advance but is not recognised as income at that time. This principally relates to support, SaaS and cloud hosting renewals, which are billed in 2016 but that are in respect of services to be delivered in 2017. Contractual income of this type is recognised monthly over the period to which it relates. It also includes deposits taken for work which has not yet been completed, as such income is only recognised when the work is substantially complete or the client software goes 'live'. Also included in trade and other payables is £0.375m (2015: £0.620m) in respect of contingent consideration. At the end of 2016, there are two tranches of contingent consideration payable in respect of ISV and these are dependent on the level of revenue achieved in 2016 and the nine month period to 30 September 2017.

Cash

The Group finished the year with cash funds of £1.537m (2015: £1.595m) and bank borrowings of £0.158m (2015: £0.325m). This is after capital expenditure of £1.126m, the payment to the vendors of ISV of £0.212m and dividend payments of £0.811m.

On behalf of the Board

Julie Pomeroy
Finance Director
25 April 2017

The Strategic Report is signed on behalf of the Board by

Jason Starr
Chief Executive
25 April 2017



Adjusted EBITDA 2016

2016	£2.43m
2015	£2.29m
2014	£2.40m
2013	£2.24m
2012	£2.00m

Adjusted basic EPS 2016

2016	7.10p
2015	7.26p
2014	8.56p
2013	7.99p
2012	7.20p

Basic EPS 2016

2016	2.68p
2015	6.20p
2014	6.18p
2013	6.76p
2012	6.79p

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Board of Directors

For the year ended 31 December 2016

**Mike Love, aged 68,
Non-Executive Chairman**

Mike Love has a PhD in theoretical physics and over 40 years' experience in the software industry. He is currently non-executive chairman of SciSys plc, also an AIM quoted company, and director and chairman at Redcliffe Precision Ltd. He was group managing director of SciSys from 1986 to 2003 during which time he led a management buy-out of the business and floated it on AIM in 1997. He is a previous member of the AIM Advisory Group of the London Stock Exchange.

**Jason Starr, aged 45,
Chief Executive**

Jason Starr joined Dillistone Systems in 1994. He became Marketing Manager in 1996 before becoming Managing Director of the UK business in 1998. Following the MBO, Jason became Managing Director of Dillistone Systems Ltd and subsequently became Group Chief Executive Officer. Jason is well known in the industry and has spoken at events in Asia, the US and Europe. Jason was appointed a non-executive director of AIM listed PCI-PAL PLC from 1 January 2016.

Jason has a BA (Honours) business studies degree from the London Guildhall University.

Jason is the Group Chief Executive of Dillistone Group Plc and Managing Director of Dillistone Systems.

**Rory Howard, aged 49,
Operations Director**

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

**Alex James, aged 44,
Product Development Director**

Alex graduated from Swansea University in 1995 with a degree in Psychology. In 1995 Alex joined Mallinckrodt Veterinary, working in quality control. In 1997 he moved to Responseability, a company that manages aspects of the recruitment process for clients, starting in administration before progressing into an account management role. Alex started at Dillistone in 1999 in a training/consultancy position prior to becoming the UK and then Global Projects Manager, being ultimately responsible for the implementation of all products and services to both new and existing clients. Alex joined the Board of Dillistone Systems Limited in January 2005 and the Group Board in February 2006.

Alex is the Product Development Director for Dillistone Systems; departments under his responsibility are software development and technical integration.

**Julie Pomeroy, aged 61,
Finance Director**

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

**Alistair Milne, aged 41,
Director of Support Services**

Alistair started his career at Richmond Theatre in 1994, working in both the marketing department and box office. In 1997 he joined The Football Association, initially in a ticketing administration role, before progressing to a management role. Alistair then began working at the Shaw Theatre as Box Office Manager. He joined Dillistone Systems in 2003. He was initially appointed to the UK and then Global Support Manager role with responsibility for all aspects of support services. He was promoted to the Dillistone Systems Limited Board in 2006 and joined the Group Board in January 2011.

Alistair is the Director of Support Services; he oversees all Dillistone IT infrastructure and support services globally.

**Giles Fearnley, aged 62,
Non-Executive Director**

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

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

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

Committee icons

Remuneration Committee

Audit Committee

Corporate Governance Report

For the year ended 31 December 2016

Corporate governance

Dillistone Group Plc (the "Company") is committed to maintaining high standards of corporate governance. The Company does not comply with the provisions of the UK Corporate Governance Code (the "Code") in its entirety and it is not required to do so. However, the Board recognises the importance of sound corporate governance and will take appropriate measures to ensure that the Company complies with the main provision of the Code as far as practicable and to the extent appropriate given the Company's size, assets, liabilities and other relevant information. The summary below further describes the company's approach to corporate governance.

Leadership

The Board comprises a Non-Executive Chairman, one Independent Non-Executive Director and five Executive Directors. All Directors are obliged to submit themselves for re-election at least every three years. The Chairman and Non-Executive Director are considered to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. Giles Fearnley is the current Senior Independent Director and his shareholding of approximately 2.3% is not considered by the Board to change his independence.

Effectiveness

To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information. They are also able to take independent professional advice as appropriate.

The Board has two committees:

Audit Committee

The Audit Committee comprises the Chairman and the Non-Executive Director and usually meets twice during the year.

The Finance Director, Group Chief Executive Officer (CFO) and external Auditor attend by invitation. The Audit Committee makes recommendations to the Board on issues surrounding the appointment, resignation or removal of auditors and their remuneration. It discusses and agrees the scope of the audit with the external Auditor before the audit.

The Audit Committee reviews external audit activities, monitors compliance with statutory requirements for financial reporting and reviews the half-year and annual accounts before they are presented to the Board for approval. It is also required to review the effectiveness of the Group's internal control systems, to review the Group's statement on internal control systems prior to endorsement by the Board and to consider, from time to time, the need for a risk assessment of the Group's internal control systems.

Remuneration Committee

The Remuneration Committee comprises the Chairman, the Non-Executive Director and, by invitation, the Group CEO and the Company Secretary. It is responsible for recommending to the Board the contract terms, remuneration and other benefits for Executive Directors, including the performance-related bonus scheme and participation in the Group's long term share option schemes.

The Board has not delegated a Nomination Committee; the whole Board is involved in the appointment of any new director.

The Board does not currently undertake an evaluation of its own performance or that of its committees.

Accountability

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

Internal controls

The Board has overall responsibility for the Group's system of internal controls. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement. In order to discharge that responsibility in a manner which ensures compliance with laws and regulations and promotes effective and efficient operations, the Directors have established an organisation structure with clear operating procedures, lines of responsibility and delegated authority. There is an established framework of internal controls set out and approved by the executive management. The more important elements of this framework are as follows:

- **Management structure**
The Board has overall responsibility for the Group and each Executive Director has been given responsibility for specific aspects of the Group's affairs.
- **Corporate accounting and procedures**
Responsibility levels are communicated throughout the Group as part of the corporate communication procedure. Accounting, delegation of authority and authorisation levels, segregation of duties and other control procedures, together with the general ethos of the Group are included in these communications, and standardised accounting policies are in place reflecting this policy.
- **Quality and integrity of personnel**
The integrity and competence of personnel is ensured through high recruitment standards and subsequent training courses. Quality personnel are seen as an essential part of the control environment and the ethical standards expected are communicated through senior members of staff.
- **Budgetary process**
Each year the Board approves the annual budget, which includes an assessment of key assumptions underlying it. Performance is monitored and relevant action taken throughout the year by monthly reporting to the Board of updated forecasts together with information on key risk areas.

- **Internal monitoring**

The Audit Committee considers and determines relevant action in respect of any control issues raised by the Auditor. Given the size of the Group and the close day-to-day control exercised by the Executive Directors and senior management, no formal financial internal audit department is considered necessary. The Operations Director is responsible for maintaining registrations and quality related certifications and defining and agreeing the procedures, standards and practices to be followed in all non-financial aspects of the Group's business.

- **Risk management**

The Board formally reviews the risk register at least annually and the consideration of risks and in particular the identification of new risks are an agenda item at each Board meeting.

- **Relationship with Company Auditor**

The Auditor has ready access to the chairman of the Audit Committee and the Audit Committee meets at least annually with the Auditor without any member of the executive being present.

Remuneration

The objective of the Group's remuneration policy is to attract, motivate, and retain high quality individuals who will contribute significantly to shareholder value. The Remuneration Committee decides on the remuneration of the Directors and other senior management, which comprises a basic salary, benefits, bonus scheme, share options and longer term incentive plan.

No Director is involved in deciding his or her own remuneration.

Relations with shareholders

The Group seeks to maintain good communications with shareholders. The Executive Directors make presentations to institutional shareholders covering the interim and full year results. The Group despatches the notice of Annual General Meetings (AGM), with an explanatory circular describing items of special business, at least 21 working days before the meeting. All shareholders have the opportunity formally or informally to ask questions at the Company's AGM and the Chairman typically makes a statement on current trading conditions at that meeting. The Chairman of the Audit and Remuneration Committees attends the AGM and will answer questions that may be relevant to the remit of those committees. At each AGM the Chairman advises shareholders of the proxy voting details on each of the resolutions, which are dealt with on a show of hands. In addition, webinars are made following certain announcements as well as ad hoc meetings, giving shareholders and other interested parties the opportunity to interact with members of the Board.

Auditor

A resolution authorising the Directors to set the remuneration of the Auditor will be put to shareholders at the forthcoming AGM.

Report to the Shareholders on Directors' Remuneration

For the year ended 31 December 2016

Remuneration report

Service contracts

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

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

Non-Executive Directors' remuneration

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

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

Executive Directors' remuneration

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

Basic salary

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

Performance related pay scheme

There are two performance related pay schemes for Executive Directors. The first is an annual bonus scheme which is based upon the achievement of certain profit and commercial targets for the Group, as appropriate. The Executive Directors' bonus charged in the 2016 financial year is £35,000 (2015: £nil).

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

Directors' remuneration

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

	Salary* and fees £'000	Annual Bonus £'000	Pension payments** £'000	Benefits £'000	2016 £'000	2015 £'000
Executive Directors						
J S Starr	99	9	29	-	137	124
R Howard	44	5	31	-	80	73
A D James	91	7	7	1	106	96
J P Pomeroy	87	7	11	-	105	95
A Milne	92	7	5	1	105	87
Non-Executive Directors						
M D Love	34	-	-	-	34	33
G R Fearnley	13	-	-	-	13	12
	460	35	83	2	580	520

* Salary is calculated after deducting Salary sacrifice payments.

** Includes salary sacrifice payments.

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

LTIP award – % of salary arrangement

	Maximum payout awarded in period £'000	Paid in the Year including Employer's NI £'000	Total value of salary based LTIP awards carried at 31 December 2016* £'000	Total value of all salary based LTIP awards carried at 31 December 2015* £'000
J S Starr	54	5	10	14
R Howard	31	-	5	5
	85	5	15	19

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

LTIP Award – share options

	Number of options granted under LTIP scheme in year	Total number of options granted under LTIP scheme at 31 December 2016	Total number of options granted under LTIP scheme at 31 December 2015
A D James	94,471	160,830	66,359
J P Pomeroy	94,063	160,134	66,071
A Milne	94,471	157,659	63,188
	283,005	478,623	195,618

The Options granted in the year were at a price of 78.5p and carry the same performance conditions as the LTIP cash bonus awards. No options were exercised in the year. In 2015, 73,975 options were exercised at a grant price of 73p.

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 5 pence each	
	At 31 December 2016	At 31 December 2015
J S Starr	3,577,591	3,577,591
R Howard	3,300,000	3,300,000
A D James	112,744	112,744
M D Love	989,754	929,754
G R Fearnley	453,435	453,435
A Milne	59,109	59,109
J P Pomeroy	63,733	63,733

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 5 pence each	
	At 31 December 2016	At 31 December 2015
A D James	160,830	66,359
J P Pomeroy	164,761	66,071
A Milne	162,286	63,188
	487,877	195,618

In 2015, Julie Pomeroy and Alex James exercised 37,263 and 36,712 options respectively at an exercise price of 73p. The mid-market share price at the date of exercise was 108.5p. Accordingly gains made by Julie Pomeroy and Alex James were £13,000 each.

Directors' Report

For the year ended 31 December 2016

The Directors present their report and financial statements for the year ended 31 December 2016.

Results and dividends

The consolidated statement of comprehensive income for the year is set out on page 25.

An interim dividend of 1.375p per share was paid in June 2016. A final dividend of 2.8p per share will be paid, subject to shareholder approval, on 27 June 2016.

Directors

The following Directors have held office since 1 January 2016:

M D Love - Non-Executive Chairman
J S Starr
R Howard
A D James
J P Pomeroy
G R Fearnley - Non-Executive Director
A Milne

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

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

Financial risk management

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

Directors' and officers' insurance

The Group maintains insurance cover for all Directors and officers of Group companies against liabilities which may be incurred by them while acting as Directors and officers.

Future Developments

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

Research and Development Activities

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

Post balance sheet events

There are no post balance sheet events to report.

Overseas branch operations

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

Annual General Meeting

The Company's Annual General Meeting will be held at 50 Leaman St, London, E1 8HO on 7 June 2017 at 10:30 am. The Notice convening the Annual General Meeting and an explanation of the business to be put to the meeting is contained in the separate document to shareholders which accompanies this report.

Auditor

Grant Thornton LLP resigned as Group and Company Auditor during the year and BDO LLP was appointed as Auditor for the year ended 31 December 2016. A resolution proposing their reappointment as Auditor to the Group and Company will be put to the forthcoming Annual General Meeting.

Directors' responsibilities

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

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

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

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

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

Website publication

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

The Directors confirm that so far as each Director is aware:

- there is no relevant audit information of which the Company's Auditor is unaware; and
- the Directors have taken all steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Auditor is aware of that information.

On behalf of the Board

J P Pomeroy
Company Secretary
25 April 2017



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Independent Auditor's Report

to the members of Dillistone Group Plc

For the year ended 31 December 2016

We have audited the financial statements of Dillistone Group Plc for the year ended 31 December 2016 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the company statement of changes in equity, the consolidated and company statements of financial position, the consolidated cash flow statement, the company cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

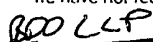
- the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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



David Butcher (Senior Statutory Auditor)

For and on behalf of BDO LLP, statutory auditor

London

25 April 2017

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Revenue	3	9,963	9,437
Cost of sales		(1,478)	(1,313)
Gross profit		8,485	8,124
Administrative expenses		(8,073)	(7,016)
Operating profit	6	412	1,108
Adjusted operating profit before acquisition related and one-off items	2	1,463	1,424
Acquisition related and one-off items	5	(1,051)	(316)
Operating profit		412	1,108
Financial income	8	3	5
Financial cost	8	(23)	(41)
Profit before tax		392	1,072
Tax income	9	134	140
Profit for the year		526	1,212
Other comprehensive income			
Items that will be reclassified subsequently to profit and loss:			
Currency translation differences		16	(27)
Total comprehensive income for the year		542	1,185
Earnings per share			
Basic	10	2.68p	6.20p
Diluted	10	2.62p	6.00p

The notes on pages 31 to 56 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Share option £'000	Foreign exchange £'000	Total £'000
Balance at 31 December 2014	969	1,432	365	3,514	118	128	6,526
Comprehensive income							
Profit for the year ended 31 Dec 2015	-	-	-	1,212	-	-	1,212
Other comprehensive income							
Exchange differences on translation of overseas operations	-	-	-	-	-	(27)	(27)
Total comprehensive income	-	-	-	1,212	-	(27)	1,185
Transactions with owners							
Issue of share capital	14	199	-	-	-	-	213
Share option charge	-	-	-	75	(47)	-	28
Dividends paid	-	-	-	(793)	-	-	(793)
Total transactions with owners	14	199	-	(718)	(47)	-	(552)
Balance at 31 December 2015	983	1,631	365	4,008	71	101	7,159
Comprehensive income							
Profit for the year ended 31 Dec 2016	-	-	-	526	-	-	526
Other comprehensive income							
Exchange differences on translation of overseas operations	-	-	-	-	-	16	16
Total comprehensive income	-	-	-	526	-	16	542
Transactions with owners							
Share option charges	-	-	-	2	14	-	16
Dividends paid	-	-	-	(811)	-	-	(811)
Total transactions with owners	-	-	-	(809)	14	-	(795)
Balance at 31 December 2016	983	1,631	365	3,725	85	117	6,906

The notes on pages 31 to 56 are an integral part of these consolidated financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Share option £'000	Total £'000
Balance at 31 December 2014	969	1,432	365	1,363	118	4,247
Comprehensive income						
Total comprehensive income for the year ended 31 December 2015	-	-	-	932	-	932
Transactions with owners						
Issue of share capital	14	199	-	-	-	213
Share option charge	-	-	-	75	(47)	28
Dividends paid	-	-	-	(793)	-	(793)
<i>Total transactions with owners</i>	14	199	-	(718)	(47)	(552)
Balance at 31 December 2015	983	1,631	365	1,577	71	4,627
Comprehensive income						
Total comprehensive income for the year ended 31 December 2016	-	-	-	1,057	-	1,057
Transactions with owners						
Share option charge	-	-	-	2	14	16
Dividends paid	-	-	-	(811)	-	(811)
<i>Total transactions with owners</i>	-	-	-	(809)	14	(795)
Balance at 31 December 2016	983	1,631	365	1,825	85	4,889

The notes on pages 31 to 56 are an integral part of these consolidated financial statements.

Consolidated and Company Statements of Financial Position

As at 31 December 2016

	Note	Group		Company	
		2016 £'000	2015 £'000	2016 £'000	2015 £'000
ASSETS					
Non-current assets					
Goodwill	12	3,415	3,415	-	-
Other intangible assets	13	5,263	6,163	-	-
Property, plant and equipment	14	215	257	-	-
Investments	15	-	-	7,601	7,599
		8,893	9,835	7,601	7,599
Current assets					
Inventories	16	5	16	-	-
Trade and other receivables	17	2,196	1,736	349	345
Cash and cash equivalents	19	1,537	1,595	43	59
		3,738	3,347	392	404
Total assets		12,631	13,182	7,993	8,003
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
Retained earnings		3,725	4,008	1,825	1,577
Share option reserve	23	85	71	85	71
Translation reserve		117	101	-	-
Total equity		6,906	7,159	4,889	4,627
Liabilities					
Non-current liabilities					
Trade and other payables	18	15	428	15	428
Borrowings	20	-	158	-	158
Deferred tax liability	9	784	1,006	-	-
Current liabilities					
Trade and other payables	18	4,599	4,193	2,931	2,623
Borrowings	20	158	167	158	167
Current tax payable		169	71	-	-
Total liabilities		5,725	6,023	3,104	3,376
Total liabilities and equity		12,631	13,182	7,993	8,003

The profit for the financial year for the parent company was £1,057,000 (2015: £932,000).

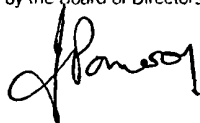
The notes on pages 31 to 56 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 25 April 2017. They were signed on its behalf by

J P Pomeroy

Director

Company Registration No. 4578125



Consolidated Cash Flow Statement

As at 31 December 2016

	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Operating activities				
Profit before tax	392		1,072	
Adjustment for:				
Financial income	(3)		(5)	
Financial cost	23		41	
Depreciation and amortisation	2,069		1,240	
Share option expense	16		28	
Foreign exchange adjustments arising from operations	31		(16)	
Operating cash flows before movement in working capital	2,528		2,360	
(Increase)/decrease in receivables	(487)		278	
Decrease in inventories	11		25	
Increase/(decrease) in payables	62		(307)	
Taxation refunded/(paid)	24		(219)	
Net cash generated from operating activities		2,138		2,137
Investing activities				
Interest received	3		5	
Financial cost	(8)		(13)	
Purchases of property, plant and equipment	(70)		(84)	
Investment in development costs	(1,056)		(961)	
Contingent consideration paid	(212)		(666)	
Net cash used in investing activities		(1,343)		(1,719)
Financing activities				
Net proceeds from issue of share capital	-		213	
Bank loan repayments made	(167)		(162)	
Dividends paid	(811)		(793)	
Net cash used in financing activities		(978)		(742)
Net decrease in cash and cash equivalents		(183)		(324)
Cash and cash equivalents at beginning of year		1,595		1,929
Effect of foreign exchange rate changes		125		(10)
Cash and cash equivalents at end of year		1,537		1,595

The notes on pages 31 to 56 are an integral part of these consolidated financial statements.

Company Cash Flow Statement

As at 31 December 2016

	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Operating activities				
Profit before tax	1,057		932	
Adjustment for:				
Financial cost	23		41	
Share option expense	16		28	
Operating cash flows before movements in working capital	1,096		1,001	
Increase in receivables	(4)		(14)	
Increase in payables	90		106	
Net cash generated from operating activities		1,182		1,093
Investing activities				
Financial cost	(8)		(13)	
Contingent consideration paid	(212)		(666)	
Net cash used in investing activities		(220)		(679)
Financing activities				
Net proceeds from issue of share capital	-		213	
Bank loan repayments made	(167)		(162)	
Dividends paid	(811)		(793)	
Net cash used in financing activities		(978)		(742)
Net decrease in cash and cash equivalents		(16)		(328)
Cash and cash equivalents at beginning of year		59		387
Cash and cash equivalents at end of year		43		59

The notes on pages 31 to 56 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the year ended 31 December 2016

Dillistone Group Plc (the 'Company') is a company incorporated in England and Wales. The financial statements are presented in thousand Pounds Sterling.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The parent company financial statements present information about the Company as a separate entity and not about its Group.

Both the Group financial statements and the Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. In publishing the Company financial statements here together with the Group financial statements, the Company has taken advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes in these financial statements.

1. Accounting policies

1.1 Basis of accounting

The consolidated financial statements have been prepared using the significant accounting policies and measurement bases summarised below:

Significant estimates

In the application of the Group's accounting policies the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The key areas are summarised below:

Capitalisation of internal development expenditure

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

Impairment of goodwill and other intangible assets

There are a number of assumptions management have considered in performing impairment reviews of goodwill and intangible assets which include an estimate of the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the recoverable amount. See notes 12 and 13.

Contingent consideration

Where contingent consideration is payable in cash and discounting would have a material effect, management uses an appropriate discount rate. As the contingent consideration is dependent upon future trading performance, an estimate of the present value of the likely consideration payable is made at each reporting date based on forecasts for that business. See note 24.

Judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management make 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, perpetual licence fee revenues are recognised on practical acceptance of the software. The Group uses the 'live' date as the basis of determining the timing of customer practical acceptance, thereby reducing the judgement required to ascertain the timing of licence revenue recognition.

Notes to the Financial Statements continued

For the year ended 31 December 2016

1. Accounting policies (continued)

Valuation of assets and liabilities

Management has made a number of assumptions with regards to the models used to value assets and liabilities at the statement of financial position date. Valuation techniques commonly used by market practitioners are applied. In respect of the provision for bad and doubtful receivables and credit note provisions, management has made relevant judgements based on discussions with the account managers as regards the recoverability of trade receivables. See note 17.

Valuation of separately identifiable intangible assets

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

Valuation of share-based payments

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Group has made estimates as to the volatility of its own shares, the probable life of options granted, leaver rates and the time of exercise of those options. The model used by the Group is a Black-Scholes valuation model. Further details are shown in note 23.

The accounting policies set out below have, unless otherwise stated, been applied consistently by the Group to all periods presented in these financial statements.

1.2 Going concern

The Group's business activities and financial position, together with the factors likely to affect its future development, performance and position, are set out in the CEO's Review and Financial Review on pages 8 to 14. In addition, note 25 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk. The Group prepare budgets and cashflow forecasts to ensure that the Group can meet its liabilities as they fall due.

The Group has considerable financial resources together with well established relationships with a number of customers and suppliers across different geographic areas. In addition a substantial proportion of its revenue is recurring.

As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.3 Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of 31 December 2016. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 31 December.

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

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

1.4 Revenue

General

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

Licensing (excluding software as a service "SaaS")

The Group licenses software under licence agreements. Perpetual licence fee revenues are recognised on practical acceptance of the software, when all obligations have been substantially completed. This is when the customer has accepted the product i.e. the "live" date, the risks and rewards of ownership have been transferred. It is probable that the economic benefits of the transaction will flow to the Group, all costs and revenue in relation to the transaction can reliably be measured and the Group has no further managerial involvement over the goods to the degree usually associated with ownership. To the extent that payments have been received in advance for licences, where practical acceptance has not yet been reached, these amounts are recognised as deferred income.

1. Accounting policies (continued)

Professional services

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

Product support, hosting and SaaS

Revenues from support, hosting or SaaS agreements are recognised over the period to which they relate but only after practical acceptance of the software, as defined above, has been received. The contractual arrangements normally separate out and apportion a value to each deliverable and this value is an approximation of the fair value of the deliverable. Where revenue is invoiced in advance for such services, the amount in advance is included in deferred revenue and released over the period to which the service relates.

Third party revenues

The Group sells, predominantly as principal, software developed by other organisations together with services that are bought in from third parties. Sales of third party software are recognised in the period in which the sale occurs. Services are recognised in the period in which they are provided.

Tokens

The Group sells tokens to access certain services within the business. Tokens are normally bought in bundles and can be used over time. Tokens have a fixed expiry period after which the customer has no legally enforceable right to claim on the tokens, and hence all risks & rewards have been transferred and performance obligations have been fulfilled. Revenue is recognised on use or on expiry of the tokens.

1.5 Share based payments

The Company operates a share based payment scheme.

It is an equity settled share-based compensation plan (share options) for remuneration of its employees.

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

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

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

1.6 Long term incentive plan ("LTIP") – capped cash bonus

The LTIP awards can be share based or cash based. The cash awards are based on a capped cash bonus with performance conditions related to the growth in earnings per share of the Group. These awards automatically mature following the publication of the Annual Report of the Company, three years after the period to which the grant relates. The liability is accrued and recognised through the income statement.

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2016

1. Accounting policies (continued)

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 (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

Where contingent consideration relates to the results spread over different accounting periods, the fair value of such consideration is recalculated at each year end and any adjustment is recognised in profit or loss immediately.

1.9 Adjusted operating profit

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

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

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

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

1.11 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

1.12 Intangible assets

Internal development costs

Costs incurred on product development relating to the design and development of new or enhanced products are capitalised as intangible assets when it is reasonably certain that the development will provide economic benefits, considering its commercial and technological feasibility and the resources available for the completion and marketing of the development, and where the costs can be measured reliably. The expenditures capitalised are the direct labour costs and subcontracted 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 for non-platform technology is amortised over its useful life of five years, with amortisation commencing in the month of costs being incurred. Maintenance costs are expensed.

Capitalised product development expenditure for the Group's FileFinder version 10, the Browser version of FileFinder and Infinity up to their launch are considered to be platform technology and had previously been amortised over their useful life of 10 years or to 30 June 2021, whichever is the shorter period. The Group has reviewed its amortisation policy for such capitalised development costs to bring it more into line with industry practice and reflect a revised useful economic life by amortising all such costs over five years. See note 13.

1. Accounting policies (continued)

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:

	Estimated life
Intangible assets:	
Brand and IP	15 years
Developed technology	6–11.25 years
Contractual customer relationships	1.25 years
Non-contractual customer relationships	10–10.25 years

1.13 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation on these assets is provided at rates estimated to write off the cost, less estimated residual value, of each asset over its expected useful life as follows:

Leasehold land and buildings	the lower of 5 years or the remaining lease period
Office and computer equipment	3–5 years straight line
Fixtures, fittings and equipment	4 years straight line

1.14 Financial assets

The Group classifies its financial assets under the definitions provided in International Accounting Standard 39 (IAS 39) Financial Instruments: Recognition and measurement, depending on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Management considers that the Group's financial assets fall under the 'loans and receivables' category.

Loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date, which are classified as non-current assets. The Group's loans and receivables comprise trade receivables, intercompany trading balances (in relation to Company accounts), and cash and cash equivalents.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. Receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty may default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups. The impairment loss estimate is then based on recent historical counterparty default rates and current economic conditions.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each statement of financial position date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Notes to the Financial Statements continued

For the year ended 31 December 2016

1. Accounting policies (continued)

1.15 Financial liabilities

The Group classifies its financial liabilities under the definitions provided in IAS 39, either as financial liabilities at fair value through profit or loss, or financial liabilities measured at amortised cost. Management considers that the Group's financial liabilities fall under the 'financial liabilities measured at amortised cost' category other than contingent consideration which is measured at fair value and movements in fair value are recognised in the profit or loss. The Group's 'financial liabilities measured at amortised cost' comprise trade payables, intercompany trading balances (in relation to Company accounts), bank loans and accruals.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.16 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.

1.17 Leases

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

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

1.18 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all directly attributable expenses. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

1.19 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.
- 'Share option reserve' represents equity-settled share-based employee and non-employee remuneration until such share options are exercised.
- 'Retained earnings' represents retained profits and losses.
- 'Translation reserve' represents translation differences arising on the consolidation of investments in overseas subsidiaries.

1.21 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 is recognised in equity relating to that particular foreign operation is recognised in the income statement.

1. Accounting policies (continued)

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. Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

1.23 Defined contribution pension scheme

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

1.24 New accounting standards to update

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2016 have had a material impact on the Group or Parent Company.

The following standards have been issued by the IASB and have been adopted by the EU:

Standard	Key requirements	Effective date as adopted by the EU
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018

IFRS 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer, so the notion of control replaces the existing notion of risk and reward. Dillistone is currently reviewing the revenue in relation to its contracts with customers to determine which, if any, will be impacted by IFRS 15. It is not yet in a position to conclude whether the implementation will have a material impact on its revenues. The introduction of IFRS 15 is likely to result in some internal process changes across the Group.

The Directors anticipate that the adoption of IFRS 9 in future periods will not have material impact on the financial statements of the Group or Parent Company.

The following standards have been issued by the IASB and have not yet been adopted by the EU:

Standard	Key requirements
IFRS 16	Leases

The adoption of IFRS 16 is likely to result in an increase in both assets and liabilities in the balance sheet, and an increase in operating profit and finance expenses in the income statement.

Notes to the Financial Statements continued

For the year ended 31 December 2016

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

	Note	Adjusted operating profits 2016 £'000	Acquisition related items 2016* £'000	2016 £'000	Adjusted operating profits 2015 £'000	Acquisition related items 2015* £'000	2015 £'000
Revenue		9,963	-	9,963	9,437	-	9,437
Cost of sales		(1,478)	-	(1,478)	(1,313)	-	(1,313)
Gross profit		8,485	-	8,485	8,124	-	8,124
Administrative expenses		(7,022)	(1,051)	(8,073)	(6,700)	(316)	(7,016)
Operating profit		1,463	(1,051)	412	1,424	(316)	1,108
Financial income		3	-	3	5	-	5
Financial cost		(8)	(15)	(23)	(13)	(28)	(41)
Profit before tax		1,458	(1,066)	392	1,416	(344)	1,072
Tax income/(expense)		(63)	197	134	3	137	140
Profit for the year		1,395	(869)	526	1,419	(207)	1,212
Other comprehensive income net of tax:							
Currency translation differences		16	-	16	(27)	-	(27)
Total comprehensive income for the year net of tax		1,411	(869)	542	1,392	(207)	1,185
Earnings per share							
Basic	10	7.10p		2.68p	7.26p		6.20p
Diluted	10	6.95p		2.62p	7.02p		6.00p

* See accounts note 5.

3. Segment reporting

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

Divisional segments

For the year ended 31 December 2016

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

3. Segment reporting (continued)

For the year ended 31 December 2015

	Dillistone £'000	Voyager £'000	Inter-divisional revenue £'000	Central £'000	Total £'000
Segment revenue	4,620	4,831	(14)	-	9,437
Segment EBITDA	1,425	956		(96)	2,285
Depreciation and amortisation expense	(534)	(327)		-	(861)
Segment result	891	629		(96)	1,424
Acquisition related amortisation	-	-		(379)	(379)
Acquisition related income	-	-		63	63
Operating profit/(loss)	891	629		(412)	1,108
Financial income	4	1		-	5
Loan interest	-	-		(13)	(13)
Acquisition related interest expenses	-	-		(28)	(28)
Profit before tax					1,072
Income tax income					140
Profit after tax					1,212
Additions of non-current assets	556	489		-	1,045

Products and services

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

Revenue

	2016 £'000	2015 £'000
Recurring income	7,027	6,606
Non-recurring income	2,370	2,333
Third party revenues	566	498
	9,963	9,437

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

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

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

4. Geographical analysis

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

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

Revenue

	2016 £'000	2015 £'000
UK	7,142	6,778
Europe	1,047	864
US	1,388	1,381
Australia	386	414
	9,963	9,437

Notes to the Financial Statements continued

For the year ended 31 December 2016

4. Geographical analysis (continued)

Non-current assets by geographical location

	2016 £'000	2015 £'000
UK	8,886	9,829
US	6	4
Australia	1	2
	8,893	9,835

5. Acquisition related and other one-off items

	2016 £'000	2015 £'000
Included within administrative expenses:		
Estimated change in fair value of contingent consideration (note 24)	(48)	(63)
Amortisation of acquisition intangibles	379	379
Additional amortisation on change of estimated useful life of platform technology (note 13)	720	-
	1,051	316
Included within finance cost:		
Unwinding of discount on contingent consideration (note 8)	15	28
	1,066	344

6. Operating profit

	2016 £'000	2015 £'000
Operating profit is stated after charging:		
Depreciation	113	126
Amortisation	1,956	1,115
Realised net (gain)/loss on foreign exchange transactions	(10)	5
Operating lease rentals – land and buildings	288	293
Money purchase pension contributions	301	265
Fees receivable by the Group auditors:		
Audit of financial statements	18	43
Other services:		
Audit of accounts of subsidiary of the Company	56	50
Taxation compliance services	18	30
All other services	-	25

7. Employees

The average number of employees was:

	2016	2015
Operations	112	111
Management	13	9
Employee numbers	125	120

Their aggregate remuneration including Directors' remuneration comprised:

	2016 £'000	2015 £'000
Wages and salaries	5,004	4,656
Social security costs	527	496
Pension costs	301	265
Share based payments	16	15
LTIP share based	-	44
LTIP non share based	(1)	15
	5,847	5,491

The aggregate remuneration includes salary cost totalling £1,045,000 (2015: £924,000) that have been capitalised in intangible assets.

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

	2016 £'000	2015 £'000
Wages and salaries	898	681
Social security costs	101	88
Pension costs	108	89
Share based payments charged	2	1
LTIP share based	-	44
LTIP non share based	(1)	15
	1,108	918

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

8. Financial income and cost

	2016 £'000	2015 £'000
Interest receivable	3	5
Finance cost on bank loan	(8)	(13)
Unwinding of discount on contingent consideration	(15)	(28)
	(20)	(36)

Notes to the Financial Statements continued

For the year ended 31 December 2016

9. Tax (income)/expense

	2016 £'000	2015 £'000
Current tax	178	191
Prior year adjustment – current tax	(91)	(185)
Deferred tax	(100)	22
Prior year adjustment – deferred tax	(50)	(31)
Deferred tax re acquisition intangibles	(68)	(68)
Prior year adjustment – deferred tax re acquisition intangibles	(3)	(69)
Tax (income)/expense for the year	(134)	(140)
Factors affecting the tax charge for the year		
Profit before tax	392	1,072
UK rate of taxation	20%	20.25%
Profit before tax multiplied by the UK rate of taxation	78	217
Effects of:		
Overseas tax rates	31	46
Impact of deferred tax not provided	13	(7)
Enhanced R&D relief	(169)	(131)
Disallowed expenses	31	14
Rate differences re current tax and deferred tax	26	6
Prior year adjustments	(144)	(285)
Tax (income)/expense	(134)	(140)

Deferred tax provided in the financial statements is as follows:

	Group			Company	
	2016 £'000	Movement £'000	2015 £'000	2016 £'000	2015 £'000
Internally generated intangible and fixed assets	315	(152)	467	-	-
Provisions	(9)	1	(10)	-	-
Acquisition intangibles	478	(71)	549	-	-
	784	(222)	1,006	-	-
	Group			Company	
	2015 £'000	Movement £'000	2014 £'000	2015 £'000	2014 £'000
Internally generated intangible and fixed assets	467	(6)	473	-	-
Provisions	(10)	3	(7)	-	-
Acquisition intangibles	549	(137)	686	-	-
	1,006	(146)	1,152	-	-

The UK corporation tax rate throughout the year was 20%. Deferred tax is provided in relation to the UK at rates of between 17% to 19% depending on when reversals are expected to occur. The tax credit is impacted by the higher rates of corporation tax payable in the US and Australia offset by the R&D tax credits available to both Dillistone Systems division and Voyager Software division and the reduction in the long term rate of corporation tax to 17% which has been used in the calculation of deferred tax. The release of prior year provisions relate in part to the agreement of the prior years' tax positions of UK companies and the utilisation of tax losses not previously recognised. The Group has gross tax losses and temporary timing differences of £369,000 (2015: £492,000) for which no deferred tax asset has been recognised as the timing of their utilisation is uncertain.

10. Earnings per share

	2016 Using adjusted operating profit	2016	2015 Using adjusted operating profit	2015
Profit attributable to ordinary shareholders	£1,395,000	£526,0000	£1,419,000	£1,212,000
Weighted average number of shares	19,668,021	19,668,021	19,547,754	19,547,754
Basic earnings per share	7.10 pence	2.68 pence	7.26 pence	6.20 pence
Weighted average number of shares after dilution	20,082,096	20,082,096	20,209,339	20,209,339
Fully diluted earnings per share	6.95 pence	2.62 pence	7.02 pence	6.00 pence
Reconciliation of basic to diluted average number of shares			2016	2015
Weighted average number of shares (basic)			19,668,021	19,547,754
Effect of dilutive potential ordinary shares – employee share plans			414,075	661,585
Weighted average number of shares after dilution			20,082,096	20,209,339

There are 638,257 (2015: 353,257) share options not included in the above calculations

11. Profit for the financial year

As permitted by section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements. The profit for the financial year for the parent company was £1,057,000 (2015: £932,000) and has been approved by the Directors. This is stated after charging:

	2016 £'000	2015 £'000
Fees paid to the company's auditors		
Audit of financial statements	18	43
Other services relating to taxation	3	5
Other services	-	20

12. Goodwill

Group	Goodwill £'000
Cost	
At 1 January 2015	3,415
Additions	-
At 31 December 2015	3,415
Additions	-
At 31 December 2016	3,415
Carrying amount	
At 31 December 2016	3,415
At 31 December 2015	3,415

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

Notes to the Financial Statements continued

For the year ended 31 December 2016

12. Goodwill (continued)

The key assumptions used for value-in-use calculations are those regarding growth rates, increases in costs and discount rates. The discount rate is reviewed annually to take into account the current market assessment of the time value of money and the risks specific to the cash generating units and rates used by comparable companies. The pre-tax discount rate used to calculate value-in-use is in a range of 12% to 19.4% (2015: 12% to 19.4%). Growth rates for forecasts take into account historic experience and current market trends. Costs are reviewed and increased for inflation and other cost pressures. The long term growth rate used for the terminal value calculation was 1.75% (2015: 2%) for all CGUs. The allocation of goodwill across the CGUs is as follows:

	Opening £'000	Addition £'000	Impairment £'000	Closing £'000
Dillistone Division	494	-	-	494
Voyager and FCP consolidated	2,251	-	-	2,251
ISV	670	-	-	670
	3,415	-	-	3,415

Sensitivities

To reduce the headroom in the impairment calculation of goodwill to £nil for the Voyager and FCP consolidated and also for ISV would require a reduction of terminal growth rate to 0% and an increase in the discount rate to over 50%. Alternatively, cash flows would need to fall by over 60%. Cashflows in respect of Dillistone goodwill would need to reduce by over 95% to reduce the headroom to £nil.

13. Other intangible assets

Group	Development costs £'000	Purchased software £'000	Acquisition intangibles £'000	Total £'000
Cost				
At 1 January 2015	4,629	-	4,172	8,801
Additions	936	25	-	961
At 31 December 2015	5,565	25	4,172	9,762
Additions	1,047	9	-	1,056
At 31 December 2016	6,612	34	4,172	10,818
Amortisation				
At 1 January 2015	1,742	-	742	2,484
Charge for the year	736	-	379	1,115
At 31 December 2015	2,478	-	1,121	3,599
Charge for the year	1,576	1	379	1,956
At 31 December 2016	4,054	1	1,500	5,555
Carrying amount				
At 31 December 2016	2,558	33	2,672	5,263
At 31 December 2015	3,087	25	3,051	6,163

13. Other intangible assets (continued)

Acquisition intangibles can be summarised as follows

	Brand £'000	Developed technology £'000	Brand and IP £'000	Contractual and non- contractual relationship £'000	Total £'000
NBV					
At 1 January 2016	139	282	563	2,067	3,051
Amortisation	(13)	(53)	(41)	(272)	(379)
At 31 December 2016	126	229	522	1,795	2,672

Following the change in the estimate of the useful economic life of platform technology detailed in note 1, the amortisation charge for the year includes a one-off increase of £720,000. In accordance with IAS 8 the charge has not been applied retrospectively as it relates to a change in estimate.

Intangible assets under development are reviewed each reporting period for impairment prior to amortisation. Forecasts of future revenue are prepared and these are discounted and compared to the carrying value. Sensitivities are carried out including applying differing growth and attrition rates as well as alternative discounts rates.

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

The Company has no intangible assets.

14. Property, plant and equipment

Group	Land and buildings £'000	Office and computer equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2015	185	675	150	2	1,012
Currency impact	-	1	1	-	2
Additions	1	82	1	-	84
Disposals	-	-	-	(2)	(2)
At 31 December 2015	186	758	152	-	1,096
Currency impact	-	16	3	-	19
Additions	-	57	13	-	70
Disposals	-	(1)	-	-	(1)
At 31 December 2016	186	830	168	-	1,184
Depreciation					
At 1 January 2015	6	569	137	1	713
Currency impact	-	1	1	-	2
Charge for the year	38	82	5	1	126
Eliminated on disposal	-	-	-	(2)	(2)
At 31 December 2015	44	652	143	-	839
Currency impact	-	15	3	-	18
Charge for year	38	71	4	-	113
Eliminated on disposal	-	(1)	-	-	(1)
At 31 December 2016	82	737	150	-	969
Carrying amount					
At 31 December 2016	104	93	18	-	215
At 31 December 2015	142	106	9	-	257

The Company has no property, plant and equipment.

Notes to the Financial Statements continued

For the year ended 31 December 2016

15. Non-current asset investments

Company

Cost	Investments in subsidiaries £'000
At 1 January 2015	7,599
Additions	-
At 31 December 2015	7,599
Additions	2
At 31 December 2016	7,601

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

The Company has the following subsidiary undertakings:

Name	Principal activity	Holding of ordinary shares	Registered
Dillistone Systems Limited	Sale of computer software and related support services	100%	England & Wales
Dillistone Systems (Australia) Pty Limited	Sale of computer software and related support services	100% (indirect)	Australia
Dillistone Systems (US) Inc	Sale of computer software and related support services	100%	USA
FCP Internet Limited	Provision of software services and related consultancy services	100%	England & Wales
FCP Internet Holdings Limited	Dormant holding company	100%	England & Wales
ISV Software Limited	Provision of software services and related consultancy services	100%	England & Wales
Woodcote Software Limited	Dormant company	100%	England & Wales
Voyager Software Limited	Sale of computer software and related support services	100%	England & Wales
Voyager Software (Australia) Pty Limited	Sale of computer software and related support services	100% (indirect)	Australia

The registered addresses of related undertakings are as follows:

Company	Registered Address
Dillistone Group Plc	50 Leman St, London E1 8HQ
Dillistone Systems Limited	50 Leman St, London E1 8HQ
Dillistone Systems (Australia) Pty Limited	56 Berry Street, North Sydney NSW, 2060, Australia
Dillistone Systems (US) Inc	50 Harrison Street, Suite 201A, Hoboken, NJ 07030, USA
FCP Internet Limited	50 Leman St, London E1 8HQ
FCP Internet Holdings Limited	50 Leman St, London E1 8HQ
ISV Software Limited	50 Leman St, London E1 8HQ
Woodcote Software Limited	50 Leman St, London E1 8HQ
Voyager Software Limited	12 Cedarwood, Crockford Lane, Chineham Business Park, Basingstoke, RG24 8WD
Voyager Software (Australia) Pty Limited	56 Berry Street, North Sydney NSW, 2060, Australia

16. Inventories

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Licences for resale	5	16	-	-

17. Trade and other receivables

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Trade receivables – net	1,787	1,512	-	-
Group receivables	-	-	329	333
Other current assets	37	37	-	-
Prepayments and accrued income	372	187	20	13
	2,196	1,736	349	345

The carrying value of trade receivables is considered a reasonable approximation of fair value. All of the receivables have been reviewed for indicators of impairment. The movement in the provision for bad debt is shown below:

	2016 £'000	2015 £'000
At start of year	88	63
Movement in the year	9	25
At the year end	97	88

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

	2016 £'000	2015 £'000
Current		
Past due date:	1,491	1,284
31–60 days overdue	121	82
More than 60 days overdue	175	146
Total	1,787	1,512

The bad debt provision is in respect of debt more than over 60 days overdue.

The Company has no bad debt provision against intercompany receivables.

Notes to the Financial Statements continued

For the year ended 31 December 2016

18. Trade and other payables

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Current liabilities				
Trade payables	685	665	56	64
Group payables	-	-	2,376	2,231
Deferred income	2,850	2,670	-	-
Accruals	689	651	124	121
Contingent consideration	375	207	375	207
	4,599	4,193	2,931	2,623
Non-current liabilities				
Contingent consideration	-	413	-	413
Cash settled LTIP	15	15	15	15
	15	428	15	428

Contingent consideration is valued at fair value. The total amounts included are as follows:

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
In current liabilities	375	207	375	207
In non-current liabilities	-	413	-	413
	375	620	375	620

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

19. Cash and cash equivalents

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Cash balances available on demand	1,537	1,595	43	59

20. Borrowings

Borrowings at amortised cost

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Current bank borrowings	158	167	158	167
Non current bank borrowings	-	158	-	158
Total bank borrowings	158	325	158	325

The Directors consider that the fair value of borrowings approximates to the carrying value.

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

The loan includes an option for early repayment at any time during the 3 year period. An early repayment fee of 1% of the amount prepaid must be made if the option is exercised. Management have reviewed the term of the prepayment option and deemed it to be closely related to the underlying debt instrument and hence it has not been separated from the host instrument.

The carrying amount of the bank borrowings is considered to be a reasonable approximation of the fair value of the debt.

21. Share capital

	2016 £'000	2015 £'000
Allotted, called up and fully paid		
Ordinary shares of 5 pence each	983	983

No share options were exercised in the period (2015: 280,475).

Shares issued and fully paid

	2016	2015
Beginning of the year	19,668,021	19,387,546
Shares issued on exercise of options	-	280,475
Shares issued and fully paid	19,668,021	19,668,021

22. Operating lease arrangements

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

At 31 December 2016, the Group had future total commitments under non-cancellable operating leases as follows:

	2016 £'000	2015 £'000
Commitments payable:	559	731
Within one year	262	233
Between two and five years	296	498

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 options granted on 14 July 2015 and 29 June 2016. The company launched its first SAYE scheme in 2016. Under this scheme discounts of up to 20% can be offered. The scheme has a linked savings contract of 3 years.

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

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

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

There were two grants of options in 2015. The weighted average share price of all grants in 2015 was 105.61p. The fair values of the services received in exchange for share based payments were calculated using a Black-Scholes pricing model. The inputs into the model were as follows:

Date of grant	Number granted	Share price on issue date	Exercise price	Expected volatility	Vesting period	Leaver rate over vesting period	Risk-free rate	Expected dividend yield
3 Feb 2015	58,500	90.50p	90.50p	30%	3.3 years	10%	1.00%	4.0%
14 July 2015	306,257	108.50p	108.50p	30%	3.3 years	0%	1.00%	4.0%

Notes to the Financial Statements continued

For the year ended 31 December 2016

23. Share options (continued)

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

	2016		2015	
	No of options*	WAEP*	No of options*	WAEP*
Outstanding at beginning of year	832,496	93.86	930,561	80.41
Granted during year	568,594	78.34	364,757	105.61
Exercised during year	–	–	(280,475)	75.95
Forfeited during year	(36,739)	28.69	(182,347)	76.33
Outstanding at the end of the year	1,364,351	89.15	832,496	93.86
Exercisable at the year end	204,500	81.11	197,239	67.49

* Adjusted for the 2 for 1 bonus issue where appropriate

The Company's mid-market share price on 31 December 2016 was 96.0p. The average mid-market share price in 2016 was 83.82p

The fair value of all options granted is shown as an employee expense with a corresponding increase in equity. The employee expense is recognised equally over the time from grant until vesting of the option. The expense charged takes into account the likelihood of performance targets being met. The employee expense for the year was £16,000 (2015: £28,000).

Share options remaining in the schemes are as follows:

Scheme type	Date of grant	Exercise from	Lapse date	Options remaining	Exercise price (p)
EMI	14/09/2007	14/09/2010	13/09/2017	27,000	99.17
Unapproved	14/01/2011	14/01/2014	13/01/2021	30,000	58.33
EMI	21/09/2011	21/09/2014	20/09/2021	94,500	77.00
Unapproved	21/09/2011	21/09/2014	20/09/2021	16,000	77.00
EMI	08/07/2013	08/07/2016	07/07/2023	17,000	79.50
EMI	25/11/2013	25/11/2016	24/11/2023	20,000	115.00
Unapproved	08/12/2014	08/12/2017	07/12/2024	10,000	97.00
EMI	08/12/2014	08/12/2017	07/12/2024	216,500	97.00
EMI	03/02/2015	03/02/2018	02/02/2025	58,500	90.50
EMI	14/07/2015	14/07/2018	13/07/2025	306,257	108.5
EMI	29/06/2016	29/06/2019	28/06/2026	441,500	78.50
Sharesave	14/10/2016	1/11/2019	30/04/2020	127,094	77.80
				1,364,351	

The weighted average remaining contractual life of options at 31 December 2016 was 7.6 years (2015: 8.0 years).

LTIP

LTIP awards under the long term incentive plan take the form of a cash bonus of up to one-third annual salary or the grant of share options, with appropriate performance conditions in place.

In 2016, there is no charge in respect of the LTIP schemes which are share based and require separate disclosure under IFRS 2.

24. Contingent consideration payable in respect of acquisitions

In September 2014 the Group acquired the entire share capital of ISV. As part of the acquisition, the vendors are entitled to contingent consideration based on revenue over the period to 30 September 2017. A payment of £212,000 was made in 2016. In the 2016 financial statements, the amount payable under the contingent consideration was decreased by £48,000 and this has been credited to the profit and loss. This contingent consideration has been discounted at 3.48% and the discount charged to profit and loss in 2016 totalled £15,000 (2015: £28,000).

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

- 30% of net revenues in the year to 31 December 2016 less £15,000 (calculated at £220,000 undiscounted)
- 30% of net revenues in the nine month period to 30 September 2017 less £25,000 (estimated at £161,000 undiscounted). A 10% increase in profits would result in an increased liability of £19,000 undiscounted.

25. Financial instruments

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

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

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

(i) Interest rate risk

The Group is exposed to interest rate risk on its floating rate borrowings and its financial assets. The interest rate profile of the Group's financial assets at 31 December 2016 was:

At 31 December 2016

	Group		Company	
	Non interest bearing financial assets £'000	Floating rate financial assets £'000	Non interest bearing financial assets £'000	Floating rate financial assets £'000
Trade and other receivables (current assets)	1,824	-	329	-
Cash and cash equivalents	-	1,537	-	42
Total	1,824	1,537	329	42

The interest rate profile of the Group's financial assets at 31 December 2015 was:

At 31 December 2015

	Group		Company	
	Non interest bearing financial assets £'000	Floating rate financial assets £'000	Non interest bearing financial assets £'000	Floating rate financial assets £'000
Trade and other receivables (current assets)	1,549	-	333	-
Cash and cash equivalents	-	1,595	-	59
Total	1,549	1,595	333	59

Notes to the Financial Statements continued

For the year ended 31 December 2016

25. Financial instruments (continued)

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

At 31 December 2016

	Group		Company	
	Non interest bearing financial assets £'000	Floating rate financial assets £'000	Non interest bearing financial assets £'000	Floating rate financial assets £'000
Trade and other payables (current liabilities)	4,224	-	2,556	-
Trade and other payables (non-current liabilities)	15	-	15	-
Bank borrowings	-	158	-	158
Contingent consideration (current liabilities)	375	-	375	-
	4,614	158	2,944	158

At 31 December 2015

	Group		Company	
	Non interest bearing financial assets £'000	Floating rate financial assets £'000	Non interest bearing financial assets £'000	Floating rate financial assets £'000
Trade and other payables (current liabilities)	3,986	-	2,416	-
Trade and other payables (non-current liabilities)	15	-	15	-
Bank borrowings	-	325	-	325
Contingent consideration (current liabilities)	207	-	207	-
Contingent consideration (non-current liabilities)	413	-	413	-
	4,621	325	3,051	325

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

(ii) Credit risk

The Group's principal financial assets are cash and cash equivalents and trade and other receivables.

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

Historically, the cash collection profile has been very good. Debt aging and collections are monitored on a regular basis and for new customers deposits are usually required. Some of the unimpaired trade receivables are past due as at the reporting date. Information on financial assets past due but not impaired are included in note 17.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Group has no significant concentration of credit risk.

The Group's maximum exposure to credit risk at the reporting date is represented by the carrying value of financial assets, as follows:

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Trade and other receivables (current assets)	1,824	1,549	329	333
Cash and cash equivalents	1,537	1,595	42	59
Total	3,361	3,144	371	392

25. Financial instruments (continued)

(iii) Liquidity risk

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

As at 31 December 2016, the Group and Company's financial liabilities (being trade and other payables and deferred income, payroll taxes, VAT or similar taxes and bank borrowings) have contractual cashflows as summarised below:

Group

31 December 2016

	Carrying amount £'000	< 1 year £'000	1-2 years £'000	2-5 years £'000
Trade and other payables (current liabilities)	4,224	4,224	-	-
Contingent consideration (current liabilities)	375	375	-	-
Trade and other payables (non-current liabilities)	15	-	-	15
Bank borrowings	158	158	-	-
	4,772	4,757	-	15

31 December 2015

	Carrying amount £'000	< 1 year £'000	1-2 years £'000	2-5 years £'000
Trade and other payables (current liabilities)	3,986	3,986	-	-
Contingent consideration (current liabilities)	207	207	-	-
Trade and other payables (non-current liabilities)	15	-	-	15
Contingent consideration (non-current liabilities)	413	-	413	-
Bank borrowings	325	167	158	-
	4,946	4,360	571	15

Company

31 December 2016

	Carrying amount £'000	< 1 year £'000	1-2 years £'000	2-5 years £'000
Trade and other payables (current liabilities)	2,556	2,556	-	-
Contingent consideration (current liabilities)	375	375	-	-
Trade and other payables (non-current liabilities)	15	-	-	15
Bank borrowings	158	158	-	-
	3,104	3,089	-	15

31 December 2015

	Carrying amount £'000	< 1 year £'000	1-2 years £'000	2-5 years £'000
Trade and other payables (current liabilities)	2,416	2,416	-	-
Contingent consideration (current liabilities)	207	207	-	-
Trade and other payables (non-current liabilities)	15	-	-	15
Contingent consideration (non-current liabilities)	413	-	413	-
Bank borrowings	325	167	158	-
	3,376	2,790	571	15

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

DSG

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