

Company Registration No. 4578125 (England and Wales)



**DSG**

Dillistone Group Plc

**ANNUAL REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

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# DILLISTONE GROUP PLC

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### Highlights for the year:

- Revenues up 28% to £5.4m with non recurring revenues up 24%
- Record level of recurring revenues of £3.2m up 28% from 2010
- Underlying organic growth in revenues of 12%
- Operating profits before exceptional items up 17% to £1.4m and up 4% to £1.2m after exceptional items
- Final dividend of 2.3333p per share recommended, making total dividend for year of 3.5p
- Cash funds of £1.6m (2010: £2.1m) and the Group remains debt free
- EPS\* pre exceptional items up 22% to 6.26p and up 4% to 5.34p post exceptional items
- Acquisition of Voyager Software successfully completed
- Results of Voyager Software included from 21 September 2011
- Healthy growth in new clients: clients in more than 60 countries
- FileFinder 10 launched on 31 March 2011

### **Commenting on the results, Mike Love, Non-Executive Chairman, said:**

“2011 has been an excellent year for Dillistone. The Group has delivered a strong set of results, completed its first acquisition and launched its next generation executive search software.”

\*rebased following 2:1 bonus issue

## DILLISTONE GROUP PLC

### DIRECTORS AND ADVISERS

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<b>Directors</b>	M D Love – Non-Executive Chairman G R Fearnley – Non-Executive Director J S Starr – Chief Executive Officer  R Howard – Operations Director A D James – Product Development Director J P Pomeroy – Group Finance Director A F Milne – Director of Support Services
<b>Secretary</b>	J P Pomeroy
<b>Company number</b>	4578125
<b>Registered office</b>	3rd Floor 50-52 Paul Street London, EC2A 4LB
<b>Independent auditors</b>	Grant Thornton UK LLP Grant Thornton House Melton Street Euston Square London, NW1 2EP
<b>Principal Bankers</b>	Barclays Bank PLC 240 Whitechapel Road PO Box 14623 London, E1 1SH
<b>Solicitors</b>	Ashfords LLP Tower Wharf Cheese Lane Bristol BS2 0JJ
<b>Nominated Adviser</b>	WH Ireland Limited 24 Martin Lane London EC4R 0DR
<b>Broker</b>	WH Ireland Limited 24 Martin Lane London EC4R 0DR
<b>Registrars</b>	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent, BR3 4TU

# DILLISTONE GROUP PLC

## CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

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### Results Overview

The Group enjoyed a successful year in 2011, achieving a number of its shorter and longer term objectives. A strong set of results were delivered showing a profit before exceptional items of £1.084m (2010: £0.872m). The profit after exceptional items was £0.926m (2010: £0.872m).

The Group began the year with our Dillistone Systems subsidiaries specialising in supplying our FileFinder software to the executive search industry. The main operational objective for Dillistone Systems in 2011 was to launch its next generation platform, FileFinder 10. This was achieved and has been well received in the market.

We also said in our 2010 annual report that we were actively pursuing an acquisition strategy. This strategy came to fruition when, in September 2011, the Group acquired Woodcote Software Limited and its subsidiary companies, Voyager Software and Voyager Software (Australia) Pty. Voyager Software is a recruitment software firm which provides software solutions to a number of sectors of the wider recruitment market outside the executive search sector. The acquisition significantly broadens our capabilities and market reach. This is my first opportunity to welcome publicly the new members of our enlarged team to the Group.

### Strategy

The Group's strategy is to continue to grow the business both organically and through acquisition. Our organic growth is supported by our commitment to product development which ensures that the business continues to command a leading role in all of the market sectors in which it operates.

We are focussed on the integration of Voyager Software and Dillistone Systems. Whilst separate brands and products will be maintained, a number of synergies and cost savings have been identified and are being implemented. Voyager Software's UK management team has been retained and they will continue to manage their brand and customers which are fundamentally important to the success of the business. We anticipate making further acquisitions, although we do not expect to make any announcements on this front in the near future.

### Investor relations

In my last report, I stated that we planned to make a bonus issue of shares. The aim of this was to increase the liquidity and marketability of our shares. The AGM in June 2011 subsequently approved the two for one bonus issue which was then completed on 14 June 2011. We believe that this has proven successful with the share spread reducing to around 5% from over 15% previously.

I also stated that a strategic objective was to broaden our shareholder base. Through the issuing of shares as part of the acquisition consideration and the issue of shares in a placing to part finance the acquisition we have made some progress with this. Directors' holdings have reduced to 45.7% (2010: 48.6%) and institutional holdings increased to over 20%.

The Group will continue to develop opportunities to broaden its shareholder base. As part of this strategy, I am delighted that we have appointed WH Ireland as our Nomad and Broker as of 5

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## **DILLISTONE GROUP PLC**

### **CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011**

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April 2012. On a related topic, the Board has appointed Grant Thornton UK LLP as our Auditors for the year ended 31 December 2011. We would like to thank our former Nomad, Broker and Auditors for their efforts on our behalf in previous years.

#### **Dividends**

An interim dividend of 1.1667p per share was paid in November 2011. The Board has recommended a final dividend of 2.3333p per share, subject to shareholder approval, payable on 26 June 2012 to holders on the register on 1 June 2012. Shares will trade ex-dividend from 30 May 2012. This takes the dividend for the year to 3.5p and gives a yield of 4.9% on a share price of 71.5p.

#### **Board Changes**

Alistair Milne joined the Board as Director of Support Services with effect from January 2011. Alistair has been with the Group since 2003, and continues as a Director of our UK subsidiary, Dillistone Systems Ltd.

#### **Staff**

Our staff are fundamentally important to the success of the business. It is through their efforts, commitment and determination that we continue as a leading player in the executive search and now recruitment software industries and have been able to produce strong results for 2011. On behalf of the Board I would like to take this opportunity to thank all of them.

#### **Outlook**

We issued a trading update in January in which we stated that the market was patchy, but that Dillistone Systems had enjoyed some success winning contracts with larger clients. Both of these statements continue to reflect the state of our markets.

Dillistone Systems operates internationally and, as such, is subject to the difficulties in Europe whilst enjoying the improving market in the Americas.

Voyager Software is currently much more focussed on the UK and, to a lesser extent, Australian markets. Although the company delivered better than expected results in the three months of our ownership prior to our year end, it is more exposed to the domestic economy. The next 18 months for Voyager Software will primarily be focussed on the launch of its next generation recruitment technology platform within the UK and taking this new product offering into further overseas markets. Therefore, whilst we anticipate that Voyager Software will deliver earnings enhancing results for the Group in 2012, it is our belief that we can significantly improve the performance of the Voyager Software business in the longer term.

Whilst the Group is not immune to wider economic difficulties, at this stage we remain confident in making further progress in FY 2012.

**Dr Mike Love**  
**Non-Executive Chairman**

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# DILLISTONE GROUP PLC

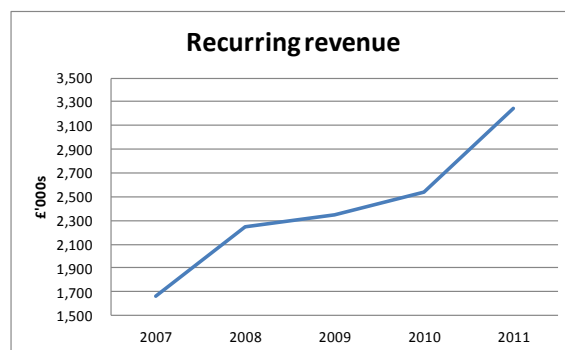
## BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2011

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### Business Review

I believe that 2011 will prove to be a transformational year for the Group. March saw Dillistone Systems launch the latest generation of its FileFinder software system, whilst in September the Group completed its first acquisition of Woodcote Software and its subsidiaries Voyager Software and Voyager Software Australia.

In our report last year, I was able to state that “we believe that we have implemented more systems, in more countries, for more executive search firms, than any comparable supplier.” I believe that this statement still applies, and, with the acquisition of Voyager taking our business into the wider recruitment industry, we believe that, in terms of number of new contract wins, the Group has become one of Europe’s leading suppliers of specialist software to the third party recruitment industry.



The business now has 2 distinct brands and products serving different sectors of the recruitment industry and we will in future years, report on the business on the basis of two divisions, namely Dillistone Systems, our executive search software business, and Voyager Software, our recruitment software business.

### Dillistone Systems

Dillistone Systems launched its next generation FileFinder 10 application at the end of March 2011. This product has been well received in the market, and is currently being used by more than 130 firms. In December 2011, we announced the availability of our “WebPort” tool for social network integration and are pleased to announce that our web application for smart phones “FFMobile” will be launched in May 2012.

Dillistone Systems’ head office is based in London and it has offices in the US, Germany and Australia. We saw revenues in this division increase by 12% in 2011 to £4.759m (2010: £4.251m). It had a segmental operating profit of £1.630m (2010: £1.414m) before unallocated central costs and exceptional items.

### Voyager Software

Voyager Software is a software firm with a number of products targeting different parts of the recruitment sector to Dillistone Systems. It has operations in the UK and Australia. Voyager Software is well known in the recruitment industry and its brand will be maintained. It has a strong customer base of over 700 customers and maintains good customer relationships, which are fundamental to the future well being of the business. Voyager Software also has an excellent work force.

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## **DILLISTONE GROUP PLC**

### **BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2011**

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We have consolidated the results of Voyager Software from 21 September 2011, with revenues of £0.689m and a segmental pre tax profit of £0.165m before unallocated central costs and exceptional items.

The acquisition of Voyager will make the combined group more UK centric in the short term as the Voyager Software business is largely UK based. In the longer term we would anticipate Voyager Software leveraging Dillistone Systems' experience in international sales, marketing and implementation of recruitment software.

The integration of Voyager has gone smoothly with trading being ahead of internal expectations in 2011. The teams in both divisions have worked well together which has helped to deliver synergy benefits. On an annualised basis, we have already made savings in Voyager Software worth more than £200,000, and we will continue to make savings where appropriate. All staff (both Voyager Software and Dillistone Systems) were granted options (in aggregate over 420,794 ordinary shares) immediately following the acquisition.

#### **Product development**

Product development remains fundamental to both businesses. Dillistone Systems launched its next generation of technology, FileFinder 10, in 2011, and Voyager Software is going through a similar process, expecting to launch its "Infinity" platform later this year. Infinity has been developed using similar technologies to those behind the FileFinder 10 platform and we anticipate that this will allow the Group to generate further synergies over time.

The global market for Voyager Software's products is potentially much larger than that for Dillistone Systems, and as such, represents a significant opportunity for the Group. The acquisition has seen us inherit a first class team and, working with the existing staff of Dillistone Systems, we are confident of our ability to take advantage of the new opportunities created by the acquisition.

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



# DILLISTONE GROUP PLC

## FINANCIAL REVIEW FOR THE YEAR ENDED 31 DECEMBER 2011

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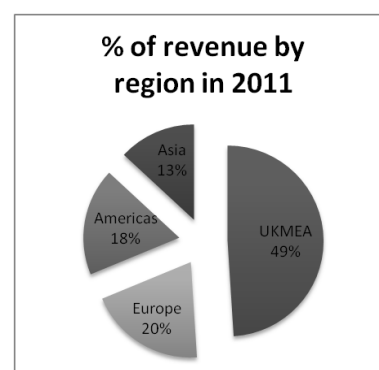
### Overview

Total revenues increased by 28% to £5.448m (2010: £4.251m), with profit before tax and exceptional items up 19% to £1.405m (2010: £1.182m). Recurring revenues increased by 28% to £3.248m (2010: £2.536m). Non-recurring revenues saw an increase of 24% to £2.122m from £1.715m in 2010. Third party software product sales amounted to £0.078m in the period (2010: £nil).

Excluding the acquisition of Voyager, revenues grew organically by 12% to £4.759m (2010: £4.251m) with recurring revenues increasing by 13% to £2.874m (2010: £2.536m). Non recurring revenues saw a 10% increase to £1.885m (2010: £1.715m).

On a Group basis we saw strong growth in UKMEA and Europe in 2011 with a slight fall in US revenues due to the implementation of an exceptional contract in that region in 2010. In reality, the number of new orders received in the US increased in 2011.

Cost of sales increased by 136% to £0.441m (2010: £0.187m). £0.098m of the increase relates to costs associated with Voyager Software and the balance mainly relates to development costs which have not been capitalised.



Administrative costs excluding exceptional items rose 26% to £3.627m (2010: £2.889m). This was in part due to the administration costs of Voyager Software from 21 September 2011 which totalled £0.394m. Exceptional items total £0.172m and relate to the costs of the acquisition that have been expensed totalling £0.115m plus amortisation of intangibles arising on acquisition.

Tax has been provided at an effective rate of 23% (2010: 26.2%) excluding exceptional items and at 25% post exceptional costs. These rates reflect the higher R&D tax credits available to both Dillistone Systems and Voyager Software that have been claimed, though not yet agreed, partially offset by the higher rates of corporation tax that are payable in the US and Australia.

Profits for the year before exceptional items rose 24% to £1.084m (2010: £0.872m) and profits for the year after exceptional items increased by 6% to £0.926m. Basic EPS rose 22% to 6.26p (2010: 5.13p) before exceptional items and 4% to 5.34p after exceptional items. Fully diluted EPS rose 22% to 6.23p (2010: 5.12p) and 4% to 5.32p after exceptional items.

### Capital expenditure

Dillistone invested £0.661m in fixed assets and product development during the year (2010: £0.679m) of which £0.580m was spent on development costs (2010: £0.623m) of which £0.101m relates to expenditure on development in Voyager Software that has been capitalised under IFRS in the Group accounts since acquisition.

## **DILLISTONE GROUP PLC**

### **FINANCIAL REVIEW FOR THE YEAR ENDED 31 DECEMBER 2011**

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#### **Trade and other payables**

This liability includes income which has been billed in advance but is not recognised at that time. This principally relates to support renewals which have been billed in December 2011 but that are in respect of services to be delivered in 2012. This also impacts on debtors at the year end. Support income is recognised monthly over the period to which it relates. It also includes deposits taken for work which has not yet been completed. Income is only recognised when the work is complete or the project goes "live".

Also included in trade and other payables is £0.098m relating to the working capital payment which was paid in February 2012 and £0.499m relating to contingent consideration due to Woodcote shareholders. The contingent consideration is dependent on the level of turnover achieved in 12 month periods to:

- 30 June 2012
- 31 December 2012
- 31 December 2013

#### **Cash**

Dillistone finished the year with cash funds of £1.617m (2010: £2.147m) and remains debt free. This was after taking into account cash from Voyager Software of £0.171m. The Group raised £0.5m from a placing and paid out £1.638m (including fees) to acquire Voyager Software. Dividends paid in the year totalled £0.609m (2010: £0.595m).

**Julie Pomeroy**  
**Group Finance Director**

# DILLISTONE GROUP PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

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The Directors present their report and financial statements for the year ended 31 December 2011.

### Principal Activities and Review of the Business

The principal activity of the Company continued to be that of a parent company. The principal activity of the Group is the sale of specialist computer software and the provision of related support services. A review of the business is contained on pages 5 and 6.

### Results and dividends

The consolidated statement of comprehensive income for the year is set out on page 23.

An interim dividend of 1.16667p per share was paid in November 2011. A final dividend of 2.3333p per share will be paid, subject to shareholder approval, on 26 June 2012.

### Key performance indicators

The following financial KPIs are used by the Board and management to monitor the performance of the business:

	FY 2007 £000	FY 2008 £000	FY 2009 £000	FY 2010 £000	FY 2011 £000
Revenues	4,066	4,608	3,655	4,251	5,448
Recurring revenues	1,666	2,246	2,344	2,536	3,248
Non recurring revenues	2,400	2,362	1,311	1,715	2,122
Other revenue	-	-	-	-	78
Profit before tax and exceptionals	1,196	1,426	1,081	1,182	1,405
Cash	1,534	2,353	1,820	2,147	1,617

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

### 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 21.

#### *Interest rate risk*

The Group finances its activities through retained cash and equity finance. The Group monitors its exposure to interest rate risk when investing its cash resources.

#### *Credit risk*

The Group has a large customer base of approximately 1,800 customers (2010: approximately 1,100) 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.

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# DILLISTONE GROUP PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

### *Exchange risk*

The Company is exposed to translation and transaction foreign exchange risk. The Group's foreign operations 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. To a degree, the Group relies on a partial natural hedge of Euro, Australian Dollar and US Dollar to cover the translation exposures.

### *Liquidity risk*

The Group 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	How we mitigate the risk
Economic risk	The recruitment industry has a reputation for being vulnerable to the cyclical nature of the economy.	The Company operates globally and so is not reliant on one economy. It enjoys a high % of recurring revenues.  In a downturn there may be a reduction in new permanent hires which may be replaced by temporary hires. The Group's suite of products now supports more aspects of the third party recruitment market through its acquisition of Voyager.
Business continuity risks associated with operational failure of hosting facilities	A failure of our hosting facilities could lead to loss of customer confidence and to potential claims for loss of profits.	Data backups occur daily and the necessary test carried out on a regular basis to ensure data can be restored.
Attrition of customer base	Failure to attract new customers or the loss of existing customers could have a detrimental effect on the Group's ability to generate revenues.	The Group continues to invest in product development to ensure that it remains competitive in the market.
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	Management work to build strong customer relationships and uses account management to keep in touch with clients.  The Group continues to invest in its product development and

## DILLISTONE GROUP PLC

### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

	<p>be able to develop their competitive position. However, the competition may intensify through consolidation or new entrants to the market.</p> <p>Some competitors offer a broader product range enabling them to compete across the whole of the sector.</p>	<p>2011 saw the launch of FF10 which is based on .net technology. It continues to innovate and provide solutions to client needs.</p> <p>The acquisition of Voyager gives the group access to the broader range of recruitment companies and will in the longer term enable it to compete more effectively.</p>
Employee retention	<p>Our capability to meet the demands of the markets in which the Group operates and compete effectively with other software suppliers is partially dependent on the skills, experience and performance of our people. Failure to attract or retain high calibre employees could seriously impede future growth and present performance.</p>	<p>To retain staff the Group operates competitive remuneration packages and an appropriate culture in which staff work.</p>
New product risk	<p>The introduction of new products might contain significant bugs that make them unusable. 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.</p>	<p>Products are tested pre launch and launch strategies developed to minimise risks.</p>
Acquisition risk	<p>The Group has made its first acquisition in 2011 and is likely to make further acquisitions in the future. This creates the potential risk that acquisitions may not perform or contain hidden risks or liabilities.</p>	<p>For all acquisitions and in advance of completion, management undertake due diligence and prepare detailed integration plans including risk identification. These papers are reviewed and approved by the Board prior to any commitment being entered into.</p>

# DILLISTONE GROUP PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

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### Directors

The following Directors have held office since 1 January 2011 other than where stated:

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 (3 January 2011)

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

Jason Starr and Alex James, who are proposed for re-election at the forthcoming AGM, have a service contract with a 1 year notice period.

### Principal shareholders

At the 16 April 2012 the Directors have been notified of the following shareholdings in excess of 3% of the Company's issued share capital:

	Ordinary shares of 5 pence each	Percentage
J S Starr	3,554,442	19.53%
R Howard	3,524,433	19.37%
J McLaughlin	2,572,122	14.14%
Herald Investment Management	1,767,444	9.71%
G R Fearnley	993,435	5.46%
Unicorn Asset Management	900,043	4.95%
CFS Independent	870,889	4.79%
R Howells	750,000	4.12%

### Creditor payment policy

The Group agrees payment terms with individual suppliers which vary according to the commercial relationship and the terms of the agreement reached. Payments are made to suppliers in accordance with the terms agreed. The number of supplier days represented by trade payables at 31 December 2011 was 16 days (31 December 2010: 48 days).

### 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.

# DILLISTONE GROUP PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

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### Annual General Meeting

The Company's Annual General Meeting will be held at its offices located at 50-52 Paul Street, London, EC2A 4LB on 29 May 2012 at 11:00 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.

### Auditors

Grant Thornton UK LLP was appointed as auditor for the year ended 31 December 2011 and a resolution proposing their re-appointment as auditors to the Company will be put to the forthcoming Annual General Meeting.

### Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the 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 Company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements.

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.

In so far as each of the Directors is aware:

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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## **DILLISTONE GROUP PLC**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011**

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#### **Statement of disclosure to auditor**

In the case of each of the persons who are Directors at the time when this report is approved, the following applies;

- (a) so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and;
- (b) each Director has taken all the steps that he ought to have taken in his duty as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board

J P Pomeroy  
Company Secretary

24 April 2012



## **DILLISTONE GROUP PLC**

### **CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 DECEMBER 2011**

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#### **Corporate Governance**

The Board supports the principles of good governance. In fulfilling their responsibilities, the Directors believe that they govern the Group in the best interests of the shareholders, whilst having due regard to the interests of other stakeholders in the Group including, in particular, customers, employees and suppliers.

#### **The Workings of the Board and its Committees**

##### **The Board**

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 6% is not considered by the Board to change his independence. 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 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. The following Committees have been established to deal with specific aspects of the Group's affairs.

##### **Audit Committee**

In 2011 the Audit Committee comprised the Chairman and Non-Executive Director and met twice during the year.

The Finance Director, Group Chief Executive Officer and external Auditors 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 Auditors before the audit. The Audit Committee Chairman also chaired the selection panel to appoint auditors during 2011.

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.

## **DILLISTONE GROUP PLC**

### **CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 DECEMBER 2011**

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#### **Remuneration Committee**

In 2011 the Remuneration Committee comprised the Chairman, the Non-Executive Director and, by invitation, the Group Managing Director and Company Secretary. It is responsible for recommending to the Board the contract terms, remuneration and other benefits for Executive Directors, including performance-related bonus scheme and participation in the Group's long term share option schemes.

#### **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.

## **DILLISTONE GROUP PLC**

### **CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 DECEMBER 2011**

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#### **Internal monitoring**

The Audit Committee considers and determines relevant action in respect of any control issues raised by the Auditors. 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.

The Directors have reviewed the effectiveness of the system of internal controls in operation during the year through the compliance monitoring process set out above and by reports from senior managers concerning the operations for which they are responsible. It must be recognised that such a system can provide only reasonable and not absolute assurance and, in that context, the review revealed nothing, which in the opinion of the Directors, indicates that the system was inappropriate or unsatisfactory.

#### **Relations with Shareholders**

The Company 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 put questions to 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.

#### **Auditors**

A resolution authorising the Directors to set the remuneration of the auditor will be put to shareholders at the forthcoming Annual General Meeting.

## DILLISTONE GROUP PLC

### REPORT TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2011

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## Remuneration Report

### Remuneration Policy

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.

### 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 the 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 the 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 decide the remuneration of the Non-Executives.

#### ***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. A bonus of £90,000 was payable to the Executive Directors in respect of 2011 (2010: £87,000). In addition, an ex-gratia bonus of £10,000 was paid to one Director in the year.

The second scheme was introduced in 2011 and is a long term incentive plan linked to growth in earnings per share over a three year period. Executive Directors may be granted "phantom share options" at the ruling mid market price at the time of the grant. The awards are subject to meeting challenging growth targets and will be cash settled. It is expected that annual awards will be made under the scheme. The value of the award is calculated at each reporting period using a Black Scholes model (see note 19 for further details). The awards made in the period are

## DILLISTONE GROUP PLC

### REPORT TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2011

included below. The remuneration committee can also choose to grant share options in place of phantom options under this scheme with the same growth targets.

#### Directors' remuneration (Audited)

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

	Salary & Fees £'000	Bonus £'000	Pension Payments* £'000	Benefits** £'000	2011 Total £'000	2010 Total £'000
<b>Executive Directors</b>						
J S Starr	112	23	1	6	142	138
R Howard	102	21	1	5	129	126
A D James	80	27	1	4	112	99
J P Pomeroy	72	15	-	4	91	47
A Milne	65	14	1	3	83	-
J McLaughlin	-	-	-	-	-	23
<b>Non-Executive Directors</b>						
M D Love	33	-	-	-	33	32
G R Fearnley	12	-	-	-	12	4
	<u>476</u>	<u>100</u>	<u>4</u>	<u>22</u>	<u>602</u>	<u>469</u>

\* Includes cash payments in lieu of employer contributions

\*\* 5% of salary set aside for future benefits

#### LTIP Award (Not Audited)

	Number of phantom options granted in year	Value at 31 December 2011 £'000
J S Starr	168,000	9
R Howard	152,250	8
A D James	120,000	7
J P Pomeroy	104,250	6
A Milne	101,250	6
	<u>645,750</u>	<u>36</u>

## DILLISTONE GROUP PLC

### REPORT TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2011

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#### 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 2011	At 31 December 2010*
J S Starr	3,554,443	3,554,443
R Howard	3,524,433	3,524,433
A D James	121,494	121,494
M D Love	127,137	57,693
G R Fearnley	993,435	993,435
A Milne	72,189	72,189
J P Pomeroy	13,888	-

*\*after adjusting for the 2 for 1 bonus issue*

In addition to the above, Julie Pomeroy was granted share options over 25,794 shares at 77p in the Company on 21 September 2011 which are exercisable from 21 September 2014. There are no performance conditions attaching to these shares.

## DILLISTONE GROUP PLC

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS FOR THE YEAR ENDED 31 DECEMBER 2011

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#### Independent auditor's report to the members of Dillistone Group Plc

We have audited the financial statements of Dillistone Group Plc for the year ended 31 December 2011 which comprise the Group statement of comprehensive income, the Group and parent company statements of changes in equity, the Group and parent company statement of financial position, the Group and parent company statements of cash flow 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 auditor

As explained more fully in the Directors' Responsibilities Statement, set out on page 13, 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 Auditing Practices Board's (APB'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 APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

#### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2011 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 matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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## DILLISTONE GROUP PLC

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS FOR THE YEAR ENDED 31 DECEMBER 2011

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

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.

Paul Etherington BSc FCA CF  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
London

**24 April 2012**



**DILLISTONE GROUP PLC**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Note	Before Exceptional items 2011 £'000	Exceptional Items 2011 £'000	2011 £'000	2010 £'000
<b>Revenue</b>	<b>2</b>	5,448	-	5,448	4,251
Cost of sales		(441)	-	(441)	(187)
<b>Gross profit</b>		5,007	-	5,007	4,064
Administrative expenses	<b>3</b>	(3,627)	(172)	(3,799)	(2,889)
Results from operating activities	<b>4</b>	1,380	(172)	1,208	1,175
Financial income	<b>6</b>	25	-	25	7
<b>Profit before tax</b>		1,405	(172)	1,233	1,182
Tax expense	<b>7</b>	(321)	14	(307)	(310)
<b>Profit for the year</b>		1,084	(158)	926	872
<b>Other comprehensive income:</b>					
Currency translation differences		(2)	-	(2)	59
<b>Total comprehensive income for the year</b>		1,082	(158)	924	931
<b>Earnings per share – from continuing activities</b>					
Basic**	<b>8</b>	6.26p		5.34p	5.13p
Diluted**	<b>8</b>	6.23p		5.32p	5.12p

*\*\*The comparative earnings per share have been adjusted to reflect the effect of the two for one bonus issue.*

The notes on pages 29 to 61 are an integral part of these consolidated financial statements.

# DILLISTONE GROUP PLC

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Share option £'000	Foreign exchange £'000	Total £'000
<b>Balance at 31 December 2009</b>	283	30	-	1,907	10	106	2,336
<b>Comprehensive income</b>							
Profit for the year ended 31 Dec 2010	-	-	-	872	-	-	872
<b>Other comprehensive income</b>							
Exchange differences on translation of overseas operations	-	-	-	-	-	59	59
Total comprehensive income	-	-	-	872	-	59	931
<b>Transactions with owners</b>							
Share option charge	-	-	-	-	2	-	2
Dividends paid	-	-	-	(595)	-	-	(595)
<b>Balance at 31 December 2010</b>	283	30	-	2,184	12	165	2,674
<b>Comprehensive income</b>							
Profit for the year ended 31 Dec 2011	-	-	-	926	-	-	926
<b>Other comprehensive income</b>							
Exchange differences on translation of overseas operations	-	-	-	-	-	(2)	(2)
Total comprehensive income	-	-	-	926	-	(2)	924
<b>Transactions with owners</b>							
Issue of share capital	60	421	365	-	-	-	846
Share option charge	-	-	-	-	12	-	12
Dividends paid	-	-	-	(609)	-	-	(609)
Capitalisation of reserves	567	-	-	(567)	-	-	-
<b>Balance at 31 December 2011</b>	<u>910</u>	<u>451</u>	<u>365</u>	<u>1,934</u>	<u>24</u>	<u>163</u>	<u>3,847</u>

The notes on pages 29 to 61 are an integral part of these consolidated financial statements.

# DILLISTONE GROUP PLC

## COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Share option £'000	Total £'000
<b>Balance at 31 December 2009</b>	283	30	-	95	10	418
<b>Comprehensive income</b>						
Profit and total comprehensive income for the year ended 31 Dec 2010 *	-	-	-	1,245	-	1,245
<b>Transactions with owners</b>						
Share option charge	-	-	-	-	2	2
Dividends paid	-	-	-	(595)	-	(595)
<b>Balance at 31 December 2010</b>	283	30	-	745	12	1,070
<b>Comprehensive income</b>						
Profit and total comprehensive income for the year ended 31 Dec 2011	-	-	-	1,406	-	1,406
<b>Transactions with owners</b>						
Issue of share capital	60	421	365	-	-	846
Share option charge	-	-	-	-	12	12
Dividends paid	-	-	-	(609)	-	(609)
Capitalisation of reserves	567	-	-	(567)	-	-
<b>Balance at 31 December 2011</b>	910	451	365	975	24	2,725

\* see note 24

The notes on pages 29 to 61 are an integral part of these consolidated financial statements.

# DILLISTONE GROUP PLC

## CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Notes	Group		Company	
		2011 £'000	2010 £'000	2011 £'000	2010 £'000
<b>ASSETS</b>					
Non-current assets					
Goodwill	10	2,490	494	-	-
Intangible assets	11	2,710	1,195	-	-
Property, plant and equipment	12	143	71	-	-
Investments	13	-	-	4,111	1,623
Trade and other receivables	15	23	68	-	-
		<u>5,366</u>	<u>1,828</u>	<u>4,111</u>	<u>1,623</u>
Current assets					
Inventories	14	11	55	-	-
Trade and other receivables	15	1,728	1,346	39	82
Cash and cash equivalents		1,617	2,147	13	11
		<u>3,356</u>	<u>3,548</u>	<u>52</u>	<u>93</u>
<b>Total assets</b>		<u><b>8,722</b></u>	<u><b>5,376</b></u>	<u><b>4,163</b></u>	<u><b>1,716</b></u>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to owners of the parent</b>					
Share capital	17	910	283	910	283
Share premium		451	30	451	30
Merger reserve		365	-	365	-
Retained earnings		1,934	2,184	975	745
Share option reserve	19	24	12	24	12
Translation reserve		163	165	-	-
Total equity		<u>3,847</u>	<u>2,674</u>	<u>2,725</u>	<u>1,070</u>
<b>Liabilities</b>					
Non current liabilities					
Trade and other payables	16	364	-	344	-
Deferred tax liability	7	565	197	-	-
Current liabilities					
Trade and other payables	16	3,795	2,408	1,094	646
Current tax payable		151	97	-	-
Total liabilities		<u>4,875</u>	<u>2,702</u>	<u>1,438</u>	<u>646</u>
<b>Total liabilities and equity</b>		<u><b>8,722</b></u>	<u><b>5,376</b></u>	<u><b>4,163</b></u>	<u><b>1,716</b></u>

The notes on pages 29 to 61 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 24 April 2012. They were signed on its behalf by

J S Starr – Director

Company Registration No. 4578125

## DILLISTONE GROUP PLC

### CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

	2011	2011	2010	2010
	£'000	£'000	£'000	£'000
<b>Operating activities</b>				
Profit from operations	1,208		1,175	
Less taxation paid	(171)		(155)	
Adjustment for				
Depreciation and amortisation	309		183	
Share option expense	12		2	
Foreign exchange adjustments arising from operations	17		-	
	<u>1,375</u>		<u>1,205</u>	
Operating cash flows before movement in working capital				
(Increase) in receivables	(214)		(154)	
Decrease in inventories	44		1	
Increase in payables	366		483	
	<u></u>		<u></u>	
Net cash generated from operating activities		1,571		1,535
<b>Investing activities</b>				
Interest received	25		7	
Purchases of property plant and equipment	(81)		(56)	
Investment in development costs	(580)		(623)	
Acquisition of subsidiaries net of cash acquired	(1,292)		-	
	<u></u>		<u></u>	
Net cash used in investing activities		(1,928)		(672)
<b>Financing activities</b>				
Net proceeds from issue of share capital	457		-	
Dividends paid	(609)		(595)	
	<u></u>		<u></u>	
Net cash used by financing activities		(152)		(595)
		<u>(509)</u>		<u>268</u>
Net (decrease)/increase in cash and cash equivalents				
Cash and cash equivalents at beginning of year		2,147		1,820
Effect of foreign exchange rate changes		(21)		59
		<u>1,617</u>		<u>2,147</u>
Cash and cash equivalents at end of year				

The notes on pages 29 to 61 are an integral part of these consolidated financial statements.

**DILLISTONE GROUP PLC****COMPANY CASH FLOW STATEMENT  
AS AT 31 DECEMBER 2011**

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	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Operating activities</b>				
Profit from operations	1,400		1,245	
Less taxation paid	-		-	
Adjustment for share option expense	12		2	
	<hr/>		<hr/>	
Operating cash flows before movements in working capital	1,412		1,247	
(Increase) in receivables	(1)		(77)	
(Decrease)/increase in payables	243		(674)	
	<hr/>		<hr/>	
Net cash generated from operating activities		1,654		496
<b>Investing activities</b>				
Investment in acquisitions	(1,500)		-	
	<hr/>		<hr/>	
Net cash used in investing activities		(1,500)		-
<b>Financing activities</b>				
Dividends paid	(609)		(595)	
Placing monies raised	457		-	
	<hr/>		<hr/>	
Net cash used in financing activities		(152)		(595)
Net (decrease) in cash and cash equivalents		<hr/>	<hr/>	<hr/>
		2		(99)
Cash and cash equivalents at beginning of year		11		110
		<hr/>		<hr/>
Cash and cash equivalents at end of year		<u>13</u>		<u>11</u>

The notes on pages 29 to 61 are an integral part of these consolidated financial statements.

## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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Dillistone Group Plc (the “Company”) is a company incorporated in England and Wales. The financial statements are presented in thousands 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 financial statements have been prepared on the historical cost basis.

##### *Use of accounting estimates and judgements*

Many of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on management’s best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimation is contained in the accounting policies and/or the notes to the financial statements and the key areas are summarised below.

##### *Customers’ practical acceptance of licence software*

As detailed in note 1.4, 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.

##### *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.

##### *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

## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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#### 1. Accounting policies (continued)

receivables and credit note provisions, management have made relevant judgments based on discussions with the account managers as regards the recoverability of trade receivables.

##### *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 19.

##### *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 present value.

##### *Business combinations:*

On initial recognition, the assets and liabilities of the acquired business are included in the consolidated statement of financial position at their fair values. In measuring fair value, management uses estimates about future cash flows and discount rates. However, actual results may vary. Details of acquired assets and liabilities are given in note 20.

##### *Valuation of separately identifiable intangible assets*

As detailed in note 1.6 separately identifiable intangible assets are identified and amortised over a defined period. The Directors use an acknowledged approach but this is reliant upon certain judgments which they determine are reasonable by reference to companies in similar industries.

##### *Contingent consideration:*

Where contingent consideration is payable in cash and discounting would have a material effect, management uses an appropriate discount rate. Where the deferred consideration is contingent and dependent upon future trading performance, an estimate of the present value of the likely consideration payable is made. See note 20.

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 Business Review and Financial Review on pages 5 to 8. In addition, note 21 to the financial statements include 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 has considerable financial resources together with well established relationships with a number of customers and suppliers across different geographic areas.

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

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## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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#### 1. Accounting policies (continued)

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 Dillistone Group Plc and of its subsidiary undertakings at the statement of financial position date. Subsidiary undertakings are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from the activities, which is considered to represent control. The Group obtains and exercises control through voting rights. There are no associates or joint ventures to be considered.

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Acquisitions of subsidiaries are dealt with by the acquisition method.

#### 1.4 Revenue

##### General

Revenue is the fair value of the total amount receivable by the Group for supplies of services which are provided in the normal course of business. VAT or similar local taxes and trade discounts are excluded.

##### Licensing

The Group licenses software under licence agreements. 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, 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.

##### 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 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 software as a service (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, have been received. As 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.

## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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#### 1. Accounting policies (continued)

##### 1.5 Share based payments

The Company operates two share based schemes.

The first 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 indirectly 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 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.

The second scheme is cash settled share based compensation plan for directors. The directors "phantom" options which have performance conditions related to the growth in earnings per share of the Group. The options will automatically be exercised following the publication of the annual report of the company, three years after the grant. These phantom options are re-valued at each half year end using a Black Scholes model and the necessary movement in the provision is recognised through profit and loss. The liability is included in non-current liabilities.

##### 1.6 Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values. Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately.

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## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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#### 1. Accounting policies (continued)

##### 1.7 Exceptional charges

Charges which are both material and considered by the Directors to be unusual in either nature or size are separately disclosed on the face of the Statement of Comprehensive Income. These include acquisition costs.

##### 1.8 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 (determined by the Group's management as equivalent to its operating segments) 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.

##### 1.9 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.

##### 1.10 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 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.

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# DILLISTONE GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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### 1. Accounting policies (continued)

Capitalised product development expenditure for versions of the Group's FileFinder product (up to version 9) and for expenditure on subsequent enhancements and releases to FileFinder 10 is amortised over its useful life of 3 years, commencing a year following the costs being incurred.

Capitalised product development expenditure for the Company's FileFinder version 10 .Net and Voyager Infinity platform is amortised over its useful life of 10 years, commencing in the year in which the product is first brought into use.

Capitalised product development expenditure is subject to regular impairment reviews and is stated at cost less any accumulated impairment losses and amortisation. Any impairment taken during the year is shown under administrative expenses on the Consolidated Statement of Comprehensive Income.

#### **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, which is between 1 – 15 years.

#### **1.11 Depreciation**

Property, plant and machinery 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	33% -50% straight line
Fixtures, fittings & equipment	25% straight line

#### **1.12 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 consider 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, and cash and cash equivalents.

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# DILLISTONE GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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### 1. Accounting policies (continued)

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.

De-recognition 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.

#### 1.13 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 consider that the Group's financial liabilities fall under the 'financial liabilities measured at amortised cost' category. The Group's 'financial liabilities measured at amortised cost' comprise trade payables, intercompany trading balances, and accruals.

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

#### 1.14 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.

#### 1.15 Leases

Finance leases are recognised as being those that transfer substantially all the risks and rewards of ownership. Assets held under finance leases are capitalised and the outstanding future lease obligations are shown in payables at the present value of the lease payments. They are depreciated over the term of the lease or their useful economic lives, whichever is the shorter. The interest element (finance charge) of lease payments is charged to profit or loss over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to profit or loss in the period in which they are incurred. The Group does not act as a lessor.

#### 1.16 Inventory

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.

#### 1.17 Cash and cash equivalents

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

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# DILLISTONE GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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### 1. Accounting policies (continued)

#### 1.18 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-based payment reserve” represents equity-settled share-based employee and non-employee remuneration until such share options are exercised.
- “Retained earnings” represents retained profits and losses.
- “Foreign exchange reserve” represents translation differences arising on the consolidation of investments in overseas subsidiaries.

#### 1.19 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 sterling 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.

#### 1.20 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. All changes to current tax liabilities are recognised as a component of tax expense in profit and loss.

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

# DILLISTONE GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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### 1. Accounting policies (continued)

expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the statement of financial position date.

#### 1.21 Defined contribution pension scheme

The pension costs charged in the financial statements represent the contributions payable by the Group during the year.

#### 1.22 New accounting standards

The Group has adopted the following new interpretations, revisions and amendments to IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Group's financial statements for the annual period beginning 1 January 2011.

The following standards, amendments and interpretations would be effective for the first time during 2011:

- IAS 24 (revised), 'Related party disclosures'
- Amendment to IAS 32, 'Classification of rights issues'
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'

None of the above had a material impact on the financial statements of the Group. As such there have been no material changes to the Group's accounting policies since the previous Annual Report.

#### ***Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group in the 31 December 2011 financial statements***

At the date of authorisation of these financial statements certain new Standards, amendments and Interpretations to existing standards have been published but are not yet effective. The Group has not early adopted any of these pronouncements. The new Standards, amendments and Interpretations that are expected to be relevant to the Group's financial statements are as follows:

Standard	Content	Applicable for financial years beginning on/after
IAS1	Presentation of Items of Other Comprehensive Income (Amendments to IAS1)	1 July 2012
IAS 19	'Employee benefits'	1 January 2013
IFRS 9	Financial instruments: Classification and measurement	1 January 2015
IFRS 10	'Consolidated financial statements'	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	'Fair value measurement'	1 January 2013

#### *Amendments to IAS 1 Presentation of Financial Statements (IAS 1 Amendments)*

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## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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#### 1. Accounting policies (continued)

##### *IAS 19, 'Employee benefits'*

In June 2011 IAS 19, 'Employee benefits' was amended. As the Group does not hold any defined benefit pension schemes the amendment will not have any impact on the financial statements.

##### *IFRS 9, 'Financial instruments: Classification and measurement'*

In November 2009, the IASB issued the first part of IFRS 9 relating to the classification and measurement of financial assets. IFRS 9 will ultimately replace IAS 39. The standard requires an entity to classify its financial assets on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset, and subsequently measures the financial assets as either at amortised cost or fair value. The new standard has yet to be adopted by the EU, but is expected to be mandatory for annual periods beginning on or after 1 January 2015. This standard is not expected to have a significant impact on the Group's financial statements.

##### *IFRS 10, 'Consolidated financial statements'*

IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the Parent Company. The Group does not expect the standard to have a significant impact on the Group's financial statements due to the straightforward nature of its corporate structure. The Group expects to adopt the standard in 2013, subject to EU endorsement.

##### *IFRS 12 Disclosure of Interests in Other Entities (IFRS 12)*

IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

##### *IFRS 13, 'Fair value measurement'*

IFRS 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. The Group's management have yet to assess the impact of this new standard.

In 2011, the Group did not early adopt any new or amended standards and does not plan to early adopt any of the standards issued not yet effective.



## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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#### 2. Segment reporting

Since the acquisition of Woodcote, the Board have principally monitored the Group's operations in terms of results of the two divisions, Dillistone and Voyager rather than on the geographical basis used prior to the acquisition and accordingly the segment reporting on this basis is also presented for 2011. It is expected that in future years the geographic segmental analysis will not be included, although a breakdown of turnover will continue to be provided. Voyager numbers are included from 21 September 2011. Segment results reflect management charges made or received. Intercompany balances are excluded from segment assets and liabilities.

#### *Divisional segments*

#### For the year ended 31 December 2011

	<b>Dillistone £'000</b>	<b>Voyager £'000</b>	<b>Total £'000</b>
Segment revenue	4,759	689	5,448
Depreciation and amortisation expense	250	3	253
Segment result	1,639	165	1,804
Central costs			(424)
Exceptional charges			(172)
Operating profit			1,208
Financial income	25	-	25
Income tax expense			(307)
			926
Additions of non-current assets	560	101	661
Additions on acquisition	-	57	57
Segment assets	3,124	375	3,499
Intangibles and goodwill			5,200
Central assets			23
Total			8,722
Segment Liabilities	3,078	986	4,064
Central liabilities			811
			4,875

No comparative is given as in 2010 only the Dillistone division existed.

## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

#### 2. Segment reporting (continued)

##### *Geographical segments*

The following tables provide an analysis of the Group's revenue, assets, liabilities and additions by geographic market.

##### For the year ended 31 December 2011

	UKMEA £'000	Europe £'000	Americas £'000	Asia- Pacific £'000	Total £'000
Segment revenue	2,669	1,076	991	712	5,448
Depreciation and amortisation expense	247	-	4	2	253
Segment result	1,253	236	129	186	1,804
Central costs					(424)
Exceptional charges					(172)
Operating profit					1,208
Financial Income	2	-	6	17	25
Income tax expense					(307)
					926
Additions of non-current assets	653	-	4	4	661
Additions on acquisition	57	-	-	-	57
Segment assets	1,517	872	779	331	3,499
Central assets and goodwill					5,223
Total assets					8,722
Segment liabilities	2,730	563	559	212	4,064
Central liabilities					811
					4,875

## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

#### 2. Segment reporting (continued)

For the year ended 31 December 2010

	UKMEA £'000	Europe £'000	USA £'000	Asia- Pacific £'000	Total £'000
Segment revenue	1,810	823	1,051	567	4,251
Depreciation and amortisation expense	177	1	3	2	183
Segment result	892	138	239	145	1,414
Central costs					(239)
Operating profit					1,175
Financial Income					7
Income tax expense					(310)
					872
Additions of non-current assets	677	-	-	2	679
Segment assets	2,587	867	889	539	4,882
Central assets - goodwill					494
Total assets					5,376
Segment liabilities	1,571	440	532	159	2,702

#### *Business segment*

The following table provides an analysis of the Group's revenue by business segment

#### Revenue

	2011 £'000	2010 £'000
Recurring income	3,248	2,536
Non-recurring income	2,122	1,715
Third Party Revenues	78	-
	<u>5,448</u>	<u>4,251</u>

Recurring income includes all support services, software as a service income (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.

## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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#### 3. Exceptional Items

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
Fees relating to the acquisition of Woodcote and its restructuring	115	-
Amortisation of intangibles	<u>57</u>	<u>-</u>
	<u>172</u>	<u>-</u>

Note 20 contains details of the acquisition giving rise to the exceptional charges

#### 4. Results from operating activities

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
Result from operating activities is stated after charging:		
Depreciation	66	82
Amortisation	243	101
Loss on foreign exchange transactions	9	-
Operating lease rentals - land and buildings	137	118
Money purchase pension contributions	31	22
Fees receivable by the Group auditors:		
Audit of financial statements	20	15
Other services:		
Audit of accounts of subsidiary of the Company	25	14
Other services relating to taxation	17	11
All other services*	<u>-</u>	<u>17</u>

\*Fees of £30,000 were paid to Grant Thornton prior to their appointment as auditors

#### 5. Employees

The average number of employees was:

	<b>2011</b>	<b>2010</b>
Operations	54	46
Management	6	4
Employee numbers	<u>60</u>	<u>50</u>

## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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#### 5. Employees (continued)

Their aggregate remuneration comprised:

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	2,562	2,093
Social security costs	292	234
Pension costs	31	22
Share based payments charged	48	-
	<u>2,933</u>	<u>2,349</u>

The aggregate remuneration includes directors' remuneration and costs totalling £418,000 (2010: £457,000) that have been capitalised in intangible assets.

Key management of the Group are the Directors and, from acquisition, the directors of Voyager Software. Remuneration of Key management was as follows:

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries and benefits	661	466
Social security costs	72	51
Pension costs	7	3
Share based payments charge including LTIP charge	40	-
	<u>780</u>	<u>520</u>

Details of Directors' emoluments, share options and pension entitlements are given in the Remuneration Report on pages 18 to 20.

#### 6. Financial income

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
Interest receivable	<u>25</u>	<u>7</u>

# DILLISTONE GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### 7. Tax expense

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
Current tax	234	207
Deferred tax	62	103
Deferred tax re acquisition intangibles	11	-
Income tax expense for the year	<u>307</u>	<u>310</u>
<b>Factors affecting the tax charge for the year</b>		
Profit before tax	<u>1,233</u>	<u>1,182</u>
UK rate of taxation	26.5%	28%
Profit before tax multiplied by the UK rate of taxation	327	331
Effects of :		
Overseas tax rates	29	37
Deferred tax not provided	-	3
Enhanced R&D relief	(70)	(76)
Disallowed expenses	63	15
Rate change impact on deferred tax	(13)	(16)
Prior Year adjustments	(32)	13
Exchange rate	3	3
Tax expense	<u>307</u>	<u>310</u>

Deferred tax provided in the financial statements is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Accelerated intangible amortisation	299	208	-	-
Provisions	(14)	(11)	-	-
Acquisition Intangibles	280	-	-	-
	<u>565</u>	<u>197</u>	<u>-</u>	<u>-</u>

## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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#### 8. Earnings per share

	<b>2011 Pre exceptional £'000</b>	<b>2011 Post exceptional £'000</b>	<b>2010 £'000</b>
Profit attributable to ordinary shareholders	1,084,000	926,000	872,000
Weighted average number of shares*	17,328,365	17,328,365	16,996,323
Basic earnings per share	6.26 pence	5.34 pence	5.13 pence
<hr/>			
Weighted average number of shares after dilution	17,392,866	17,392,866	17,031,975
Fully diluted earnings per share	6.23 pence	5.32 pence	5.12 pence

\* a bonus issues of shares took place in June 2011 and the number of shares in 2010 have been adjusted to take account of this issue.

#### 9. Profit for the financial year

As permitted by section 408 of the Companies Act 2006, the holding company's profit and loss account has not been included in these financial statements. The profit for the financial year for the holding company was £1,406,000 (2010: £1,245,000).

## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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#### 10. Goodwill

<b>Group</b>	<b>Goodwill £'000</b>
<b>Cost</b>	
At 1 January 2010	494
Additions	-
At 31 December 2010	<u>494</u>
Additions	1,996
At 31 December 2011	<u>2,490</u>
<b>Amortisation</b>	
At 1 January 2010	-
Charge for the year	-
At 31 December 2010	<u>-</u>
Charge for the year	-
At 31 December 2011	<u>-</u>
<b>Carrying amount</b>	
At 31 December 2011	<u>2,490</u>
At 31 December 2010	<u>494</u>
At 31 December 2009	<u>494</u>

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 to which the goodwill has been allocated. The recoverable amount of the cash generating unit (CGU) is based on value-in-use calculations. These calculations use cash flow projections covering a 3 year period based on financial budgets and a calculation of the terminal value, for the period following these formal projections.

The key assumptions used for value-in-use calculations are those regarding growth rates, increases in costs and discount rates. The discount rate is reviewed annually to take into account the current market assessment of the time value of money and the risks specific to the cash-generating units and rates used by comparable companies. The pre tax discount rate used to calculate value-in-use is 12% (2010: 12%). Growth rates for forecasts take into account historic experience and current market trends. Costs are reviewed and increased for inflation and other costs pressures. The long term growth rate used for the terminal value calculation is 2%.



## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

#### 10. Goodwill (continued)

(2010: 2%) for all CGUs. The allocation of goodwill across the CGUs is as follows:

	Opening £'000	Addition £'000	Impairment £'000	Closing £'000
Dillistone UKMEA	290	-	-	290
Dillistone Europe	110	-	-	110
Dillistone Australia	40	-	-	40
Dillistone US	54	-	-	54
Voyager consolidated		1,996	-	1,996
	<u>494</u>	<u>1,996</u>	<u>-</u>	<u>2,490</u>

#### Sensitivities

To reduce the headroom in the impairment calculation to £nil for the Voyager consolidation goodwill would require a reduction of terminal growth rate to 0% and an increase in the discount rate to 20%. No meaningful sensitivity for the Dillistone goodwill reduces the headroom to £nil.

#### 11. Intangible assets

Group	Development costs £'000	Acquisition Intangibles £'000	Total £'000
<b>Cost</b>			
At 1 January 2010	1,047	-	1,047
Additions	623	-	623
At 31 December 2010	<u>1,670</u>	<u>-</u>	<u>1,670</u>
Additions	580	1,178	1,758
At 31 December 2011	<u>2,250</u>	<u>1,178</u>	<u>3,428</u>
<b>Amortisation</b>			
At 1 January 2010	374	-	374
Charge for the year	101	-	101
At 31 December 2010	<u>475</u>	<u>-</u>	<u>475</u>
Charge for the year	186	57	243
At 31 December 2011	<u>661</u>	<u>57</u>	<u>718</u>
<b>Carrying amount</b>			
At 31 December 2011	<u>1,589</u>	<u>1,121</u>	<u>2,710</u>
At 31 December 2010	<u>1,195</u>	<u>-</u>	<u>1,195</u>
At 31 December 2009	<u>673</u>	<u>-</u>	<u>673</u>

## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

#### 11. Intangible assets (continued)

Acquisition Intangibles can be summarised as follows:

	Brand £'000	Developed Technology £'000	Contractual relationship £'000	Non contractual relationship £'000	Total £'000
<b>Cost</b>					
At 1 January 2011	-	-	-	-	-
Additions	194	306	171	507	1,178
Amortisation	(3)	(8)	(34)	(12)	(57)
At 31 December 2011	191	298	137	495	1,121

#### 12. Property, plant and equipment

Group	Land and buildings £'000	Office & computer equipment £'000	Fixtures and fittings £'000	Total £'000
<b>Cost</b>				
At 1 January 2010	163	270	25	458
Currency impact	-	3	3	6
Additions	-	56	-	56
At 31 December 2010	163	329	28	520
Currency impact	-	-	-	-
Additions by acquisition	-	112	102	214
Additions	-	81	-	81
At 31 December 2011	163	522	130	815
<b>Depreciation</b>				
At 1 January 2010	110	229	24	363
Currency impact	-	3	1	4
Charge for the year	33	47	2	82
At 31 December 2010	143	279	27	449
Currency impact	-	-	-	-
Depreciation on acquisition	-	100	57	157
Charge for the year	20	40	6	66
At 31 December 2011	163	419	90	672
<b>Carrying Amount</b>				
At 31 December 2011	-	103	40	143
At 31 December 2010	20	50	1	71
At 31 December 2009	53	41	1	95

## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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#### 13. Non-current asset investments

##### Company

	<b>Unlisted Investments £'000</b>
<b>Cost</b>	
At 1 January 2011	1,623
Acquired - Woodcote	2,488
31 December 2011	<u>4,111</u>

The Company has the following subsidiary undertakings:

<b>Name</b>	<b>Principal activity</b>	<b>Holding of ordinary shares</b>	<b>Registered</b>
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
Woodcote Software Limited	Holding 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 ownership of Voyager Software was transferred from Woodcote Software Limited to Dillistone Group Plc on 30 December 2011.

# DILLISTONE GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### 14. Inventories

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Licences for resale	<u>11</u>	<u>55</u>	<u>-</u>	<u>-</u>

### 15. Trade and other receivables

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Trade and other receivables*	1,514	1,161	-	-
Group receivables	-	-	30	78
Other current assets	44	-	8	4
Prepayments and accrued income	193	253	1	-
	<u>1,751</u>	<u>1,414</u>	<u>39</u>	<u>82</u>

\*Trade and other receivables includes £23,000 (2010: £68,000) receivable in more than one year and have been included in non-current assets.

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 is shown below:

	2011 £'000	2010 £'000
At start of year	52	-
Movement in the year	26	52
At the year end	<u>78</u>	<u>52</u>

The ageing profile of trade receivables past due date but not impaired as at the year end is as follows:

	2011 £'000	2010 £'000
Current	1,346	996
31 - 60 days overdue	71	55
More than 60 days overdue	97	110
Total	<u>1,514</u>	<u>1,161</u>

## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

#### 16. Trade and other payables

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
<b>Current liabilities</b>				
Trade and other payables	476	352	10	5
Group payables	-	-	626	546
Deferred income	2,473	1,799	-	-
Accruals	846	257	458	95
	<u>3,795</u>	<u>2,408</u>	<u>1,094</u>	<u>646</u>
<b>Non current liabilities</b>				
Contingent consideration	308	-	308	-
Cash settled option provision	36	-	36	-
Other provisions	20	-	-	-
	<u>364</u>	<u>-</u>	<u>344</u>	<u>-</u>

#### 17. Share capital

	2011	2010
	£'000	£'000
<b>Allotted, called up and fully paid</b>		
18,196,277 Ordinary shares of 5 pence each	<u>910</u>	<u>283</u>

In June 2011 the Company carried out a 2 for 1 bonus issue of 11,330,882 Bonus Shares. In September 2011 the Company placed 694,445 shares @72p to partially finance the acquisition of Woodcote Software Limited. It also issued 505,509 shares to the Vendors of Woodcote as part of the consideration paid.

	2011	2010
<b>Shares issued and fully paid</b>		
Beginning of the year	5,665,441	5,665,441
Bonus issue	11,330,882	-
Shares issued on placing	694,445	-
Issued on acquisition of Woodcote	505,509	-
Shares issued and fully paid	<u>18,196,277</u>	<u>5,665,441</u>

## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

#### 18. Operating lease arrangements

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

At 31 December 2011 the Group had future total commitments under non-cancellable operating leases as follows:

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
Commitments payable:	479	286
Within one year	154	83
Between two and five years	<u>325</u>	<u>203</u>

#### 19. Share options

##### *Share based payments*

There are two share option schemes in operation: an Enterprise Management Incentive Scheme ("the EMI Scheme") which complies with the requirements of HMRC and a scheme which has not been approved by HMRC ("the Unapproved Scheme"). 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. There are no performance conditions associated with these options

During 2011 the Group made two grants of options. 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
14 Jan 2011	30,000	58.33p	58.33p	65%	3 years	0%	1.75%	4.5%
21 Sept 2011	420,794	77.00p	77.00p	65%	3.33 years	15%	0.79%	4.5%

\*Adjusted for the 2 for 1 bonus issue where appropriate

No options were granted in 2010.

## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

#### 19. Share options (continued)

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

	2011		2010	
	No of options*	WAEP*	No of options*	WAEP*
Outstanding at beginning of year	101,652	55.27	107,652	68.11
Granted during year	450,794	75.76	-	-
Exercised during year	-	-	-	-
Forfeited during year	-	-	(6,000)	99.17
Outstanding at the end of the year	552,446	74.01	101,652	66.27
Exercisable at the year end	101,652	66.27	101,652	66.27

\*Adjusted for the 2 for 1 bonus issue were appropriate

No directors exercised share options during the year. The Company's mid-market share price on 31 December 2011 was 72.5p.

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 employee expense for the year was £ 12,000 (2010: £2,000).

Share options remaining in the schemes are as follows:

Scheme Type	Date of Grant	Exercise From	Lapse Date	Options remaining	Ex Price (p)
EMI	03/05/2006	03/05/2009	02/05/2016	8,913	5.38
Unapproved	03/05/2006	03/05/2009	02/05/2016	26,739	5.38
EMI	14/09/2007	14/09/2010	13/09/2017	60,000	99.17
Unapproved	14/09/2007	14/09/2010	13/09/2017	6,000	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	398,794	77.00
Unapproved	21/09/2011	21/09/2014	20/09/2021	22,000	77.00
				552,446	

#### Cash settled options

During the year the Board introduced a long term incentive scheme for directors. The scheme grants phantom options to the participants and these options are cash settled on the vesting date, which will be the date of the publication of the appropriate annual report. The amount payable will be the increase in share price between the date of grant and vesting multiplied by the number of phantom options granted multiplied by the performance factor. The performance factor is based on the percentage rise in the earnings per share over the period.

The fair values of the services received in exchange for cash based option payments were calculated using a Black-Scholes pricing model at 31 December 2011.

## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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#### 19. Share options (continued)

The inputs into the model were as follows

Date of grant	Number granted*	Share price on issue date*	Exercise price *	Expected volatility	Remaining period to vesting	Leaver rate over vesting period	Risk free rate	Expected dividend yield
28 April 2011	645,750	58.33p	66.67p	65%	2.33 years	0%	0.4%	4.25%

*\*Adjusted for the 2 for 1 bonus issue*

The expense charged for the year for the year was £36,000 (2010: £nil). The total provision carried forward was £36,000 (2010: £nil) and is included in non-current liabilities

#### 20. Acquisitions

On 21 September 2011, the Group acquired the entire share capital of Woodcote Software Limited for an estimated consideration before fees of £2,487,000, which was satisfied as detailed below. This was part of the Group's strategy to broaden our offering to the recruitment sector.

Woodcote is a non-trading holding company. Voyager Software Limited ([www.voyage.co.uk/](http://www.voyage.co.uk/)), which was a wholly owned subsidiary of Woodcote, sells a number of software products to its target market of recruitment agencies. The products are designed to facilitate the filling of temporary or permanent vacancies. Voyager Software (Australia) Pty Ltd., a wholly owned subsidiary of Voyager, markets a similar product range. Between them, Voyager and Voyager (Australia) have over 700 active unique clients and nearly 5,000 active licensed users.



## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

#### 20. Acquisitions (continued)

The details of the business combination are as follows:

	Book value £'000	Fair Value adjustments £'000	Fair Value £'000
<b>ASSETS</b>			
Non-current assets			
Property plant and equipment	57	-	57
Intangible assets	-	1,178	1,178
Current assets			
Trade and other receivables	125	-	125
Cash and cash equivalents	208	-	208
<b>Total assets</b>	<b>390</b>	<b>1,178</b>	<b>1,568</b>
<b>Liabilities</b>			
Trade and other payables	(756)	(24)	(780)
Deferred tax liability	-	(295)	(295)
<b>Net assets acquired</b>	<b>(366)</b>	<b>859</b>	<b>493</b>
Goodwill			1,994
			<b>2,487</b>
Satisfied by			
Cash consideration			1,500
Settled in shares			390
Cash consideration in relation to surplus working capital *			98
Contingent consideration			499
			<b>2,487</b>
<b>Fair value of Consideration transferred</b>			£'000
Amount settled in cash consideration in period			1,500
Cash and cash equivalents acquired			(208)
Net cash outflow on acquisition			1,292
Acquisition fees relating to placing charged to share premium reserve			43
Acquisition costs charged to expenses			115
Net cash paid relating to acquisition			1,450

*\*included in trade payables at the year end*

Equity consideration was agreed at £390,000 and satisfied by the issue of 505,509 ordinary shares in Dillistone Group. It was also contractually agreed that the price used to calculate the shares would be the mid market price over the average of the previous 30 days. This was calculated to be 77.15p.

The placing was carried out at a price of 72p and this has been used to value the equity issued.

## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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#### 20. Acquisitions (continued)

The total consideration of £2,487,000 net of cash acquired of £208,000 was £2,279,000 before fees. The fair value adjustment of £24,000 to liabilities was in relation to employee redundancy costs which had been approved by previous management pre acquisition but not recognised. Fees of £43,000 in respect of the issue of equity have been offset against the merger reserve and £115,000 were expensed as exceptional costs. In addition, following a detailed review of the fair value of assets and liabilities acquired, in accordance with IFRS3 Business Combinations the Group has recognised 4 intangible assets totalling £1,178,000 made up as follows:

	£'000	Estimated life
<b>Intangible assets:</b>		
Brand	194	15 years
Developed technology	306	11.25 years
Contractual customer relationships	171	1.25 years
Non contractual customer relationships	507	10.25 years
	<u>1,178</u>	

Goodwill of £1,994,000 represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. The goodwill arising on the acquisition consists largely of the workforce value, synergies and economies of scale expected from combining the operating with Dillistone Group companies.

As part of the acquisition, the Group agreed to pay additional consideration against surplus working capital up to a certain level that was retained in the business at completion. Following a completion accounts verification process, an amount of £98,000 was agreed to be paid to the vendors and is included in creditors at the year end. In addition the vendors are entitled to contingent consideration:

- £200,000 - provided that the revenue of the acquired companies exceeds £2,200,000 in the year ending 30 June 2012
- 30 per cent of the revenue of the acquired companies over £2,300,000 in the year ending 31 December 2012
- 30 per cent of the revenue of the acquired companies over £2,300,000 in the year ending 31 December 2013

From the date of acquisition to 31 December 2011, the acquired companies contributed £689,000 to revenue and £165,000 to profit before taxation. In the last financial year, being the year ended 30 June 2011 the acquired companies made a profit before taxation of £105,000 and before an exceptional loss totalling £384,000 relating to a loan write-off to a Group company, ExpressHR Services Limited, which was sold on acquisition. However, due to a change in year end, lack of audited accounts, changed capital structure and exceptional write-offs, pro-forma profit or loss of the combined entity for the complete 2011 reporting period cannot be readily be determined.

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## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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#### 21 Financial instruments

The Group uses various financial instruments; these include cash and bank deposits 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 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 has a limited exposure to interest rate volatility. The Group has no debt and the only interest rate exposure is therefore on the Group's bank deposits. The Group's policy is to maintain capital preservation and flexibility rather than to optimise interest rates on bank deposits held. Cash deposits in sterling and foreign currencies are made at prevailing interest rates. Where rates are fixed, the fixed interest period is generally no more than 1 month.

At the year end, the Group had positive cash balances totalling £1,617,000 (2010: £2,147,000). Had interest rates been 1% higher during the financial year, the impact on profit would have been an increase in profit for the year of £ 21,000 (2010: increase of £20,000).

##### (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. 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 16.

The credit risk on liquid funds and derivative financial instruments 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.

# DILLISTONE GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### 21 Financial instruments (continued)

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

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
Trade and other receivables (current assets)	1,728	1,346
Trade and other receivables (non-current assets)	23	68
Cash and cash equivalents	1,617	2,147
Total	<u>3,368</u>	<u>3,561</u>

#### (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 will have sufficient liquidity to meet its liabilities when due.

As at 31 December 2011, the Group and Company's financial liabilities (being trade and other payables and deferred income and income tax) have contractual maturities as summarised below:

#### Group

<b>31 December 2011</b>	<b>Carrying amount</b>	<b>&lt; 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade and other payables (current liabilities)	3,795	3,795	-	-
Trade and other payables (non-current liabilities)	364	-	128	236
	<u>4,159</u>	<u>3,795</u>	<u>128</u>	<u>236</u>

<b>31 December 2010</b>	<b>Carrying amount</b>	<b>&lt; 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade and other payables (current liabilities)	2,408	2,408	-	-
Trade and other payables (non-current liabilities)	-	-	-	-
	<u>2,408</u>	<u>2,408</u>	<u>-</u>	<u>-</u>

#### Company

<b>31 December 2011</b>	<b>Carrying amount</b>	<b>&lt; 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade and other payables (current liabilities)	1,094	1,094	-	-
Trade and other payables (non-current liabilities)	344	-	108	236
	<u>1,438</u>	<u>1,094</u>	<u>108</u>	<u>236</u>

## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

#### 21 Financial instruments (continued)

31 December 2010	Carrying amount	< 1 year	1-2 years	2-5 years
	£'000	£'000	£'000	£'000
Trade and other payables (current liabilities)	2,408	2,408	-	-
Trade and other payables (non-current liabilities)	-	-	-	-
	<u>2,408</u>	<u>2,408</u>	<u>-</u>	<u>-</u>

The directors consider there to be no significant liquidity risks due to the significant cash balances of the Group.

#### (iv) Foreign currency risk

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

At the year end, the Group had assets totalling £852,000 and liabilities totalling £563,000 denominated in Euros (2010: assets totalling £867,000 and liabilities totalling £440,000), assets totalling £759,000 and liabilities totalling £559,000 denominated in US Dollars (2010: assets totalling £889,000 and liabilities totalling £532,000) and assets totalling £323,000 and liabilities totalling £212,000 denominated in Australian Dollars (2010: assets totalling £539,000 and liabilities totalling £159,000). If each of the exchange rates weakened by 5%, the impact on the income statement would be a decrease in profit before tax by £27,000 (2010: decrease of £27,000).

#### Capital risk management

The Group's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets.

The Company has no debt, and therefore the total capital managed by the Group as at the year end was its total equity balance of £3,847,000 (2010: £2,674,000). Further details in respect of movements in capital are provided in the statement of changes in equity.

## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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#### 21 Financial instruments (continued)

##### Summary of financial assets and liabilities by category

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

	Group		Company	
	2011 £'000s	2010 £'000s	2011 £'000s	2010 £'000s
Financial assets				
Loans and receivables	-	-	-	-
Cash and Cash equivalents	1,617	2,147	13	11
Trade and other receivables	1,751	1,414	39	82
	<u>3,368</u>	<u>3,561</u>	<u>52</u>	<u>93</u>
Financial liabilities				
Trade and other payables	3,660	2,408	939	646
Contingent consideration	499	-	499	-
	<u>4,159</u>	<u>2,408</u>	<u>1,438</u>	<u>646</u>

#### 22. Control

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

#### 23. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. These take the form of management charges payable by Group members to relating to support services provided directly to them and dividends.

The directors received dividends paid by the Company of £292,000 (2010: £289,000).

#### 24. Dividends

The dividends paid in 2011 and 2010 were £ 609,000 (3.5p per share) and £595,000 (3.5p per share) respectively after adjusting for the bonus issue. A final dividend in respect of the year ended 31 December 2011 of 2.3333p per share will be paid on 26 June 2012. These financial statements do not reflect this dividend.

## DILLISTONE GROUP PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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#### 24. Dividends (continued)

Under company law, any distribution made by a company to its shareholders must not exceed the amount of distributable reserves reported in the last annual accounts of the company circulated to shareholders. In the event that the last annual accounts do not show sufficient distributable reserves to pay all or any part of the dividends concerned, then it is a company law requirement that a company prepares unaudited interim accounts demonstrating sufficient distributable reserves prior to payment of such dividend ("Interim Accounts"). In the case of a public company, Interim Accounts need to have been properly prepared and filed with the Registrar of Companies before a dividend is declared or (in the case of an interim dividend) paid.

In the years 2006 to 2010, the Company paid dividends to shareholders in part out of distributable profits generated in the year in which the dividends were paid, rather than in respect to the distributable reserves available by reference to the last filed annual accounts or relevant Interim Accounts.

Whilst the Group did have sufficient distributable reserves at the relevant times to cover the whole amounts of the dividends paid in the years 2006 to 2010, at the time that those dividends were paid, sufficient distributable reserves had not been distributed from the other companies within the Group and paid to the Company by way of intra-group dividends. Accordingly the payment of the dividends in this period has given rise to certain technical breaches of the Companies Act 1985 or the Companies Act 2006.

Interim Accounts for the six months to 30 June 2011 were prepared by the Company and filed with the Registrar of Companies, showing distributable reserves sufficient to allow the appropriation of reserves necessary to rectify the past dividend issue.

At a general meeting in November 2011, shareholders voted on and passed four resolutions to rectify and ratify the payment of the dividends paid in the years 2006 to 2010, which were made in breach of the Companies Act 1985 or the Companies Act 2006 and to release any claims that the Company may have against its shareholders or directors (whether past present or future) in respect of the dividends paid incorrectly. This matter is now resolved.



**DSG**

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