

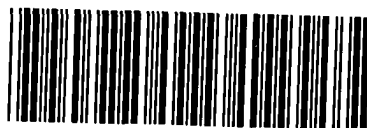
Company Registration No. 02043300 (England and Wales)

DILLISTONE SYSTEMS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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DILLISTONE SYSTEMS LIMITED

DIRECTORS AND ADVISERS

Directors	J S Starr	- Director
	R Howard	- Operations Director
	A D James	- Development Director
	A F B Milne	- Managing Director
	J P Pomeroy	- Finance Director
	L Authwall	- Projects Director

Secretary	J P Pomeroy
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Company number	2043300
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Registered office	First Floor 50 Leman St London E1 8HQ
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Independent auditors	BDO LLP 55 Baker Street London W1U 7EU
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Principal Bankers	HSBC Bank Plc Basingstoke Commercial Centre 8 London Street Basingstoke RG21 7NU
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Solicitors	Ashfords LLP Tower Wharf Cheese Lane Bristol BS2 0JJ
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DILLISTONE SYSTEMS LIMITED

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DILLISTONE SYSTEMS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Dillistone Systems is a leading global supplier of technology and services to executive search firms and to in-house search teams at major corporations and not-for-profit organisations. The Division's principal product is the FileFinder Anywhere suite, which is typically delivered from the cloud via a range of Apps. The Division is headquartered in the UK, but has internationally and serves clients in more than 60 countries, employing around 60 people. Dillistone Systems Limited is the principal element of this division, covering both the UK and Europe from its London offices and German branch.

Dillistone Systems works closely with the Group's GatedTalent Division. The two businesses have a significant overlap in terms of client base and develop products that work closely together.

Strategy and objectives

The Company's strategy is set by the Group Board, details are contained in the Group's annual report and accounts. The Company's objectives are principally to:

- ensure our products meet the needs of the executive recruitment sector through continual investment and development of our products;
- be a leading player in the market we serve;
- develop our staff;
- increase our profitability thereby enabling the Group to deliver increased shareholder value year on year.

Key Performance indicators

Management use absolute figures to monitor the performance of the business in the following financial KPIs:

	2017 £'000	2016 £'000	Measure used by Management
Total Revenues	2,914	3,209	Year on year growth
Recurring Revenues	2,308	2,179	Year on year growth
Non-recurring Revenues	606	1,030	Year on year growth
Operating Profit / (Loss)	101	(92)	Year on year growth

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

Our business model

The Company specialises in the supply of software and services into executive-level recruitment teams in the UK and Europe.

Our FileFinder products are delivered through one or more of the following:

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

The Company has offices in the UK and Germany (through a branch). As well as supplying and supporting our software we also host the software for a proportion of our clients.

DILLISTONE SYSTEMS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Review of the business

The UK business of Dillistone Systems is the centre of operations for the broader Dillistone Systems Division, providing support and services to other Group members for which it makes a charge.

Revenue fell 9% to £2,914,000 (2016: £3,209,000), while cost of sales rose 30% to £525,000 (2016: £405,000) and administrative expenses fell 16% to £3,037,000 (2016: £3,623,000). The fall in administrative expenses results mainly from 2016 including a one-off increase to the amortisation charge for the year of £600,000, which followed a reduction in management's estimate of the useful economic life of certain intangible assets to five years rather than a range of five to ten. The current year gave a profit on ordinary activities before taxation of £101,000 (2016: loss £91,000).

Statement of Financial Position

The company's financial position remains strong with cash of £193,000 (2016: £321,000), and net assets of £914,000 (2016: £753,000).

Product Development

Focus on our FileFinder Anywhere product suite has continued, including significant development to aid our clients in complying with the new GDPR via integrations with the Group's new GatedTalent platform. We have also continued to improve the application architecture, allowing more efficient deployment to both new and existing clients. Product development spend in 2017 was £586,000 (2016: £558,000).

Financial Risk Management

The Company'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 Company does not trade in financial instruments.

Interest rate risk

The Company finances its activities through retained cash. The Company monitors its exposure to interest rate risk when investing its cash resources.

Credit risk

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

Exchange risk

The Company is exposed to translation and transaction foreign exchange risk. The Company'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 Company 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. Translation risk arises on both the Company's own foreign currency balances, and amounts owed to and from overseas group companies.

Liquidity risk

The Company maintains positive cash resources and has access to an overdraft. It has sufficient available funds for its operations.

DILLISTONE SYSTEMS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Principal risks and uncertainties

There are a number of risks and uncertainties which could have an impact on the Company'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. This can impact significantly on non-recurring revenue and, to a lesser extent, recurring revenue.	<p>The Company enjoys a high percentage of recurring revenues.</p> <p>In a downturn there may be a reduction in new permanent hires which may be replaced by temporary hires.</p>
New product risk	<p>All technology suppliers need to develop new products and applications and there is always a risk that new products may lead to issues. This could damage the Company'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>The cost and time frame for developing and releasing new product could be a bigger drain on resource than built into budgets and forecasts.</p>	<p>Products are tested pre-launch and launch and implementation strategies developed to minimise risks.</p> <p>The Development plan is regularly reviewed by management.</p> <p>Product Manager added in 2018 to help ensure product is fit for purpose.</p> <p>Additional UX (User Experience) resource added in 2018 to help deliver software that meets the needs of clients.</p>
Attrition of customer base	Failure to attract new customers or the loss of existing customers could have a detrimental effect on the Company's ability to generate revenues.	<p>Actively manage existing customer relationships through account management structures and promptly deal with issues.</p> <p>The Company continues to invest in new products with new features being added.</p>
Competitor activity	The market for recruitment software is extremely fragmented with a large number of small suppliers operating in all of the	The Company has strong customer relationships and uses account management to keep in touch with clients.

DILLISTONE SYSTEMS LIMITED

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017**

	<p>Company's geographical markets. Very few of these suppliers have the necessary financial, technical and marketing resource to be able to develop their competitive position. However, the competition may intensify through consolidation or new entrants to the market.</p> <p>Some competitors may offer a broader product range enabling them to compete across the whole of the sector.</p> <p>The business can easily lose market share if its products are not well regarded either from being 'out of date' or 'buggy'.</p> <p>Some firms may try to compete on price, particularly if the market deteriorates.</p>	<p>The Company continues to invest in its product development and continues to innovate and provide solutions to client needs.</p> <p>The Company continues to develop new products and additional features to more readily compete.</p> <p>There is a focus on fixing bugs and issues as they arise to ensure the user experience is good.</p> <p>Pricing strategies reviewed on a regular basis.</p> <p>It is expected that the Company will benefit from the launch of GatedTalent by a fellow group company. If successful, GatedTalent will provide a competitive advantage to FileFinder. Close integration with FileFinder is likely to lead to a sustained competitive advantage for our executive search CRM platform.</p>
Business continuity risks associated with information systems, operational failure, data security and cyber security risks	<p>A failure of systems or of hosting facilities could lead to loss of customer confidence in the Company being able to deliver their requirements.</p> <p>Loss or corruption of data held on behalf of customers which could have a detrimental effect on their confidence in data security processes and could cause financial loss.</p> <p>External attacks on servers could result in lost or corrupted data and loss of reputation.</p>	<p>The business is reliant on data centres. Work ongoing to move data centres to the cloud through Azure.</p> <p>Plans are regularly reviewed on how to improve data centre management as the business grows.</p> <p>Data backups occur daily and the necessary test carried out on a regular basis to ensure data can be retrieved.</p> <p>Penetration testing helps minimise the risk of attacks.</p>

DILLISTONE SYSTEMS LIMITED

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017**

		Regular review of infrastructure to improve cyber defences locally and at data centres.
Employee engagement and retention	<p>Capability to meet the demands of the markets in which the Company operates and competes effectively with other IT suppliers is largely dependent on the skills, experience and performance of staff.</p> <p>Failure to attract or retain high calibre employees could seriously impede future growth and present performance.</p> <p>Reliability of small group of people especially in parts of the business.</p>	<p>To retain staff the Company operates competitive remuneration packages.</p> <p>Appraisals are carried out which also consider an individual's personal development.</p> <p>Cross training being carried out where possible.</p>
Data Protection Legislation	Ensure that all the Company's products comply with international data protection legislation and demonstrate to clients that it does.	<p>Work being carried out to ensure data is secure and protected at appropriate levels.</p> <p>At the Group level, a senior member of the executive team has GDPR practitioner certificate. Appropriate internal committee established.</p> <p>Numerous webinars held for clients and prospects on the impact of GDPR.</p>
Ability to finance new development	The Company wishes to grow through development of its own products. This requires it to have the ability to fund such expansion through borrowing (either externally or from within the group), or through the availability of its own cash resources.	At the Group level, ongoing discussions are held with investors and potential investors to build a following in Dillistone.
Management capacity	Size of the business means that management tends to be stretched and under resourced. As the business grows there may be insufficient support to ensure that	In 2018 the Company anticipates a further strengthening of product development management capability.

DILLISTONE SYSTEMS LIMITED

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017**

	the growth is effectively managed and integrated.	
Foreign exchange volatility	The Company has substantial operations in both the UK and Europe. Reported profits are therefore exposed to variations in exchange rates. In addition, the Company bears the translation risk on amounts owed to and from fellow group companies. Therefore, if sterling strengthens against all currencies it can have a negative impact on results.	Management monitors FX exposures and can engage in FX hedging transactions in the market if necessary.
Brexit	<p>Potential economic uncertainty could lead to a reduction in orders in the short to medium term, impacting adversely on the Company's results.</p> <p>Clearly, any changes brought about by Brexit are likely to be implemented in the lead up to the exit date, which might introduce changes to the UK-EU trading arrangements.</p> <p>This may impact where recruiting individuals with European languages requirement. It may increase the time and difficulty in recruiting skilled employees.</p>	<p>Clients usually choose best in class and already buy from global firms. The Company continues to monitor implications and is continually reviewing its products and pricing to ensure it stays competitive.</p> <p>The Company deals with visa requirements for some staff already.</p>

On behalf of the Board



Alistair Milne
Managing Director
25 September 2018

DILLISTONE SYSTEMS LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors present their report and financial statements for the year ended 31 December 2017.

Principal activities

The Company's principal activity is the development, sale and support of executive recruitment software, and the provision of ancillary services.

Results and dividends

During the year the Company recorded a profit on ordinary activities before taxation of £101,000 (2016: loss £91,000). The dividends paid in 2017 were £nil and in 2016 £1,000,000 (£40 per share).

Directors

The following Directors have held office since 1 January 2017 and up to the date of this report except where noted:

J S Starr
R Howard
A D James
A F B Milne
J P Pomeroy
L Authwall

The Company's ultimate holding company, Dillistone Group Plc, maintains insurance cover for all Directors and officers of the Company against liabilities which may be incurred by them while acting as Directors and officers.

Directors' interests

None of the Directors had any interests in the share capital of the Company as at 31 December 2017 or as at 31 December 2016.

Other than L Authwall, the Directors' interests in the shares of Dillistone Group Plc, the parent undertaking, are detailed in the Directors' Report included within that company's Annual Report. As at 31 December 2017 L Authwall did not hold any shares in Dillistone Group Plc.

Financial risk management

Detail of the Company's financial risk management is set out in the Strategic report section.

Auditor

BDO LLP was auditor for the year ended 31 December 2017. Under section 487(2) of the Companies Act 2006, BDO LLP will be deemed to have been reappointed as auditor 28 days after these financial statements are sent to members or 28 days after the latest date prescribed for filing the accounts with the Registrar, whichever is earlier.

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) FRS 101 *Reduced Disclosure Framework*. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of

DILLISTONE SYSTEMS LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2017

the state of affairs and profit or loss of the Company 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume the company will continue in business.

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

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.

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 auditor is unaware, and;
- (b) each Director has taken all the steps that they ought to have taken in their duty as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

On behalf of the board



J P Pomeroy

Director

25 September 2018

DILLISTONE SYSTEMS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS FOR THE YEAR ENDED 31 DECEMBER 2017

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF DILLISTONE SYSTEMS LIMITED

Opinion

We have audited the financial statements of Dillistone Systems Limited ("the Company") for the year ended 31 December 2017 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

DILLISTONE SYSTEMS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS FOR THE YEAR ENDED 31 DECEMBER 2017

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

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

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

DILLISTONE SYSTEMS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS FOR THE YEAR ENDED 31 DECEMBER 2017

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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



David Butcher (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London
Date: 25 September 2018

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

DILLISTONE SYSTEMS LIMITED**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 £'000	2016 £'000
Turnover	2	2,914	3,209
Cost of sales		(525)	(405)
Gross profit		<u>2,389</u>	<u>2,804</u>
Administrative expenses		(3,037)	(3,623)
Other operating income	3	749	727
Profit / (loss) from operations	4	<u>101</u>	<u>(92)</u>
Interest receivable and similar income		-	1
Profit / (loss) on ordinary activities before taxation		<u>101</u>	<u>(91)</u>
Tax on profit / (loss) on ordinary activities	5	61	99
Profit for the financial year		<u>162</u>	<u>8</u>
Other comprehensive income:			
Items that will be reclassified subsequently to profit and loss:			
Currency translation differences		(1)	(15)
Total comprehensive income / (loss) for the financial year		<u>161</u>	<u>(7)</u>

The notes on pages 15 to 29 are an integral part of these financial statements.

DILLISTONE SYSTEMS LIMITED

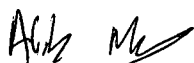
**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

Company Registration No. 02043300	Note	2017 £'000	2016 £'000
Fixed Assets			
Intangible assets	6	1,547	1,475
Tangible assets	7	108	161
Investments	8	18	18
		<u>1,673</u>	<u>1,654</u>
Current assets			
Stock	9	-	1
Debtors	10	2,391	2,056
Cash at bank and in hand		193	321
		<u>2,584</u>	<u>2,378</u>
Creditors: amounts falling due within one year			
Trade and other payables	11	(3,138)	(3,032)
Current tax payable		(19)	(57)
		<u>(3,157)</u>	<u>(3,089)</u>
Net current liabilities		<u>(573)</u>	<u>(711)</u>
Total assets less current liabilities		1,100	943
Deferred tax liability	5	(186)	(190)
Net assets		<u>914</u>	<u>753</u>
Capital and Reserves			
Called up share capital	12	25	25
Translation reserve		(6)	(5)
Retained earnings		895	733
Shareholders' funds		<u>914</u>	<u>753</u>

The notes on pages 15 to 29 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 25 September 2018.

They were signed on its behalf by



A F B Milne - Director

DILLISTONE SYSTEMS LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Share capital £'000	Retained earnings £'000	Translation reserve £'000	Total £'000
Balance at 1 January 2016	25	1,725	10	1,760
Comprehensive income				
Profit for the year	-	8	-	8
Other comprehensive income				
Exchange differences on translation of overseas operations	-	-	(15)	(15)
Transactions with owners				
Dividends paid	-	(1,000)	-	(1,000)
Balance at 31 December 2016	<u>25</u>	<u>733</u>	<u>(5)</u>	<u>753</u>
Comprehensive income				
Profit for the year ended	-	162	-	162
Other comprehensive income				
Exchange differences on translation of overseas operations	-	-	(1)	(1)
Transactions with owners				
Dividends paid	-	-	-	-
Balance at 31 December 2017	<u>25</u>	<u>895</u>	<u>(6)</u>	<u>914</u>

The notes on pages 15 to 29 are an integral part of these financial statements.

DILLISTONE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Dillistone Systems Limited (the "Company") is a company limited by shares, incorporated in England and Wales. Its principal activity is the sale of software to the executive recruitment market. The registered address is located on the Directors and advisors page. The financial statements are presented in thousand pounds Sterling.

The financial statements have been prepared and approved by the Directors in accordance with United Kingdom Accounting Standards including FRS 101 *Reduced Disclosure Framework* and the Companies Act 2006.

1. Accounting policies

1.1 Basis of accounting

The financial statements have been prepared on the historical cost basis using the significant accounting policies and measurement bases summarised below.

Significant estimates

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

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

- *Impairment of intangible assets*
There are a number of assumptions management have considered in performing impairment reviews of intangible assets which include an estimate of a suitable discount rate in order to calculate the recoverable amount. See note 6.
- *Capitalisation of internal development expenditure*
Management exercises judgement in establishing both the technical feasibility of completing an intangible asset which can be used internally or sold and the degree of certainty that a market exists for the asset, or its output, for the generation of future economic benefits. In addition amortisation rates are based on estimates of the useful economic lives and residual values of the assets involved. The assessment of these useful economic lives is made by projecting the economic lifecycle of the asset which is subject to alteration as a result of product development and innovation. Amortisation rates are changed where economic lives are re-assessed and technically obsolete items written off where necessary. The carrying value of capitalised development is reviewed for impairment at each accounting period end. See note 6.

Judgements in applying the Company's accounting policies

In the process of applying the Company's accounting policies, management make various judgements that can significantly affect the amounts recognised in the financial statements. The critical judgements are considered to be the following:

DILLISTONE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

- *Customers' practical acceptance of licence software*
As detailed in note 1.4, perpetual licence fee revenues are recognised on practical acceptance of the software. The Company uses the "live" date as the basis of determining the timing of customer practical acceptance, thereby reducing the judgment required to ascertain the timing of licence revenue recognition.
- *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 provisions for bad and doubtful receivables and credit notes, management have made relevant judgments based on discussions with the account managers regarding the recoverability of trade receivables.

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

1.2 Going concern

The Company's business activities and financial position, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on page 1. The Company prepares budgets and cash flow forecasts to ensure that it can meet its liabilities as they fall due.

The Company 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.

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 Exemption from preparing group accounts

The financial statements present information about the Company as an individual undertaking and not about its group. The Company has not prepared group financial statements as it is exempt from the requirement to do so by section 400 of the Companies Act 2006 as it is a subsidiary undertaking of Dillistone Group Plc, a company incorporated in England & Wales, and is included in the consolidated financial statements of that company.

1.4 Turnover

General

Turnover represents amounts derived from the provision of goods and services falling within the company's ordinary activities, after deduction of trade discounts, VAT or similar local taxes, as defined in the Companies Act 2006.

DILLISTONE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

Licensing (excluding SaaS)

The Company licenses software under licence agreements. Perpetual licence fee revenues are recognised on practical acceptance of the software, when all obligations have been substantially completed. This is when the customer has accepted the product, the risks and rewards of ownership have been transferred, it is probable that the economic benefits of the transaction will flow to the Company, all costs and revenue in relation to the transaction can reliably be measured and the Company 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 Company 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, has 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.

1.5 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.

1.6 Intangible assets

Development Costs

Costs incurred on product development relating to the design and development of new or enhanced products are capitalised as intangible assets when it is reasonably certain that the development will provide economic benefits, considering its commercial and technological feasibility and the resources available for the completion and marketing of the development, and where the costs can be measured reliably. The expenditures capitalised are the direct labour costs and subcontracted costs, which are managed and controlled centrally. Product development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised product development is amortised over its useful life. This is estimated to be five years, with amortisation commencing in the month of costs being incurred. Maintenance costs are expensed.

Capitalised product development expenditure is subject to regular impairment reviews and is stated at cost less any accumulated impairment losses. Any impairment taken during the year is shown under administrative expenses on the statement of comprehensive income. Development costs

DILLISTONE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

that do not meet the requirements for capitalisation are written off to the income statement as incurred.

Purchased Software

Software acquired externally is capitalised when it is expected to have ongoing use within the business. Capitalised expenditure includes both the purchase price and any costs directly associated with bringing the software into use. Amortisation is charged over the useful economic life of the software, typically 3-5 years, beginning when it is capable of being used by the business.

1.7 Tangible Assets

Tangible fixed assets 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 from when it is brought into use:

Leasehold land and buildings	- 5 years or the remaining lease period, whichever is shorter
Office and computer equipment	- 3-5 years straight line
Fixtures and fittings	- 25% straight line

1.8 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.

1.9 Leasing

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

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

1.10 Financial assets

In accordance with applicable accounting standards the Company classifies its financial assets 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 Company'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 Company's loans and receivables comprise trade receivables, intercompany trading balances, and cash and cash equivalents.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. Receivables are

DILLISTONE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

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.

1.11 Financial liabilities

In accordance with applicable accounting standards, the Company can measure its financial liabilities at fair value through the income statement, or at amortised cost. Management consider that the Company's financial liabilities fall under the 'financial liabilities measured at amortised cost' category. The Company's 'financial liabilities measured at amortised cost' comprise trade payables, intercompany trading balances, and accruals.

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

1.12 Cash and cash equivalents

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

1.13 Equity

Equity comprises the following:

- 'Share capital' represents the nominal value of equity shares.
- 'Retained earnings' represents retained profits and losses.
- 'Translation reserve' represents translation differences arising on the consolidation of overseas operations.

1.14 Foreign currency translation

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. This includes amounts owed to and from overseas group entities where the overseas group entity records the balance in a foreign currency. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the income statement.

The assets and liabilities of overseas operations which are included in the Company's accounts are translated at exchange rates prevailing on the financial position date. Exchange differences arising on the translation of overseas operations are classified as equity.

DILLISTONE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

1.15 Income taxes

Current income tax assets and liabilities comprise those obligations to fiscal authorities in the countries in which the Company 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 the income statement.

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 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 liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the statement of financial position date.

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

1.16 Defined contribution pension scheme

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

1.17 Holiday pay accrual

A provision for annual leave accrued by employees as a result of services rendered, and which employees are entitled to carry forward and use within the next 12 months, is recognised in the current period. The provision is measured at the salary cost payable for the period of absence.

1.18 Disclosure exemptions

As Dillistone Systems Limited is a wholly owned subsidiary of Dillistone Group Plc, and its financial statements are included in the consolidated financial statements of that company (available from www.dillistonegroup.com), the Company has elected to adopt the following disclosure exemptions permitted by FRS 101:

- the requirement to produce a cash flow statement;
- the requirement to include a reconciliation of movements in property, plant and equipment, and intangible assets, between the beginning and end of the comparative period;
- the requirement to include a list of new accounting standards that have been issued but have yet to be applied, as well as an estimate of the potential impact of their introduction;

DILLISTONE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

- the requirement to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary that is party to the transaction is wholly owned within the group;
- the requirement to make qualitative disclosures on the exposure to risk and how it arises, and the policies and processes for managing and measuring risk. Additionally, quantitative disclosures on the exposure to and concentration of risk, specifically liquidity risk, credit risk and market risk.

In accordance with FRS 101 the format of the Company's primary statements, the Statement of Financial Position, the Statement of Comprehensive Income and the Statement of Changes in Equity, follow the format required by SI 2008/410.

2. Segmental information

Geographical analysis

The following table provides an analysis of the Company's revenue by geographic market. Management does not review the business from a geographical performance viewpoint and this analysis is provided for information only.

Turnover	2017 £'000	2016 £'000
UK	1,873	2,162
Europe	1,041	1,047
	<u>2,914</u>	<u>3,209</u>

Products and Services

The following table provides an analysis of the Company's turnover by products and services

Turnover	2017 £'000	2016 £'000
Recurring income	2,308	2,179
Non-recurring income	606	1,030
	<u>2,914</u>	<u>3,209</u>

Recurring income includes all support services, SaaS and hosting income. Non-recurring income includes sales of new licenses, and income derived from installing those licenses including training, installation, and data translation.

DILLISTONE SYSTEMS LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****3. Other operating income**

	2017	2016
	£'000	£'000
Management charge received from fellow subsidiary undertakings	<u>749</u>	<u>727</u>

4. Result from operating activities

	2017	2016
	£'000	£'000
Operating profit is stated after charging:		
Depreciation	70	75
Amortisation	514	1,150
(Gain) / loss on foreign exchange movements	(62)	171
Operating lease rentals	113	113
Money purchase pension contributions	57	76
Fees receivable by the Company auditors:		
Audit of financial statements	20	13
Other services relating to taxation	<u>10</u>	<u>7</u>

DILLISTONE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

5. Tax

	2017	2016
	£'000	£'000
Current tax	(15)	8
Prior year adjustment - current tax	(41)	(20)
Deferred tax	(17)	(86)
Prior year adjustment - deferred tax	12	(1)
Income tax income for the year	<u>(61)</u>	<u>(99)</u>

	2017	2016
	£'000	£'000
Profit / (loss) on ordinary activities before taxation	<u>101</u>	<u>(91)</u>
Effective rate of taxation	19.25%	20.00%
(Loss) / profit before tax multiplied by the effective rate of tax	19	(18)

Effects of:

Enhanced R&D relief	(80)	(101)
Group relief	7	(23)
Disallowed expenses	15	48
Overseas taxes	-	1
Rate differences re current tax and deferred tax	7	15
Prior year adjustments	(29)	(21)
Current tax income	<u>(61)</u>	<u>(99)</u>

Deferred tax

	£'000
As at 31 December 2016	191
Charged to comprehensive income	(5)
As at 31 December 2017	<u>186</u>

The UK corporation tax rate fell in April 2017 to 19% from 20% and accordingly the rate for the year is 19.25%. Deferred tax is provided in relation to the UK at rates of between 17% to 19% depending on when reversals are expected to occur. Deferred tax arises on internally generated intangible assets, and tangible assets. The tax credit is impacted by the R&D tax credits available. It has also been assumed that where there are tax losses arising from R&D tax credits they will be surrendered for a tax repayment at the HMRC stated rate of 14.5%. The release of prior year provisions relates, in part, to the agreement of the prior years' tax position.

DILLISTONE SYSTEMS LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****6. Intangible assets**

	Development costs £'000	Purchased Software £'000	Total £'000
Cost			
At 31 December 2016	4,576	34	4,610
Additions	494	92	586
At 31 December 2017	<u>5,070</u>	<u>126</u>	<u>5,196</u>
Amortisation			
At 31 December 2016	3,134	1	3,135
Charge for the year	510	4	514
At 31 December 2017	<u>3,644</u>	<u>5</u>	<u>3,649</u>
Carrying Amount			
At 31 December 2017	<u>1,426</u>	<u>121</u>	<u>1,547</u>
At 31 December 2016	<u>1,442</u>	<u>33</u>	<u>1,475</u>

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

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

DILLISTONE SYSTEMS LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****7. Tangible assets**

	Leasehold land and buildings £'000	Office and computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
At 31 December 2016	187	485	29	701
Additions	-	16	1	17
At 31 December 2017	<u>187</u>	<u>501</u>	<u>30</u>	<u>718</u>
Depreciation				
At 31 December 2016	82	434	24	540
Charge for the year	38	30	2	70
At 31 December 2017	<u>120</u>	<u>464</u>	<u>26</u>	<u>610</u>
Carrying Amount				
At 31 December 2017	<u>67</u>	<u>37</u>	<u>4</u>	<u>108</u>
At 31 December 2016	<u>105</u>	<u>51</u>	<u>5</u>	<u>161</u>

DILLISTONE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

8. Investments

	Unlisted Investments £'000
Cost	
At 1 January 2017 & 31 December 2017	18

The Company holds share capital of the following company:

Name	Principal activity	Holding of ordinary shares	Registered
Dillistone Systems (Australia) Pty Limited	Sale of computer software and related support services	100%	Australia

The aggregate amount of capital and reserves and the results of this undertaking for the last relevant financial year were as follows:

	Capital and reserves 2017 £'000	Profit for year 2017 £'000
Dillistone Systems (Australia) Pty Limited	<u>228</u>	<u>20</u>

9. Stock

	2017 £'000	2016 £'000
Licences for resale	<u>-</u>	<u>1</u>

10. Debtors

	2017 £'000	2016 £'000
Trade receivables	938	1,254
Group receivables	1,285	531
Current tax receivable	16	-
Prepayments and sundry debtors	152	271
	<u>2,391</u>	<u>2,056</u>

All amounts are due within one year.

DILLISTONE SYSTEMS LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****10. Debtors (continued)**

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:

	2017	2016
	£'000	£'000
At start of year	37	30
Charged to statement of comprehensive income	48	7
At the year end	<u>85</u>	<u>37</u>

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

	2017	2016
	£'000	£'000
Current	815	1,062
31 - 60 days overdue	50	57
More than 60 days overdue	73	135
Total	<u>938</u>	<u>1,254</u>

11. Creditors: amounts falling due within one year

	2017	2016
	£'000	£'000
Trade payables	63	83
Group payables	1,162	984
Social security and other taxes	163	215
Deferred income	1,490	1,573
Accruals and sundry creditors	260	177
	<u>3,138</u>	<u>3,032</u>

12. Share capital

	2017	2016
	£'000	£'000
Allotted, called up and fully paid		
25,000 ordinary shares of £1 each	<u>25</u>	<u>25</u>

DILLISTONE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

13. Operating lease arrangements

The Company leases its offices under non-cancellable operating lease agreements.

At 31 December 2017 the Company had future total commitments under this operating lease as follows:

	2017 £'000	2016 £'000
Commitments payable:		
Within one year	121	121
Between two and five years	111	232
	<u>232</u>	<u>353</u>

14. Employees

The average number of employees was:

	2017	2016
Operations	45	44
Directors	1	1
	<u>46</u>	<u>45</u>

The aggregate remuneration of employees and directors comprised:

	2017 £'000	2016 £'000
Wages and salaries	1,925	1,735
Social security costs	220	193
Pension costs	83	76
	<u>2,228</u>	<u>2,004</u>

The aggregate remuneration includes costs totalling £461,000 (2016: £486,000) that have been capitalised in intangible assets.

All directors are employed and remunerated in the parent company with the exception of L Authwall, whose remuneration for the period is as follows:

	2017 £'000
Emoluments	78
Aggregate amounts receivable under long term incentive schemes	-
Pension contributions to money purchase pension schemes	-
	<u>78</u>

Dillistone Group Plc, the parent company, offers a group long term incentive scheme to the Directors. Options over the shares of Dillistone Group Plc are granted at the ruling mid-market price at the time of the grant. The awards are subject to meeting challenging EPS growth targets over a three year period. Annual awards are expected to be made under this scheme. L Authwall

DILLISTONE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

14. Employees (continued)

was awarded 38,000 options at a strike price of 58.5p under this scheme in 2017 (2016: 27,554 options at a strike price of 78.5p).

15. Control

Dillistone Systems Limited is a wholly owned subsidiary of Dillistone Group Plc, a company registered in England and Wales.

16. Related party transactions

The Company is exempt under FRS 101 from disclosing related party transactions between two or more members of a group, as all subsidiaries which are party to the transactions are wholly owned by Dillistone Group Plc.

17. Dividends

The dividends paid in 2017 were £nil and in 2016 were £1,000,000 (£40 per share).