MATCHTECH GROUP PLC

# Specialist Recruitment Group

Annual Report 2014

# Our Purpose

## Engage our staff
## Delight our clients
## Promote our candidates

**Overview**

01 Highlights
02 The Group at a Glance
04 Chairman's Statement

**Strategic Report**

08 Our Business Model
09 Our Strategy
10 Chief Executive's Review
14 Responsible Employer
16 Chief Financial Officer's Report

**Governance**

20 Principal Risks and Uncertainties
22 Board of Directors
24 Directors' Report
27 Corporate Governance Report
30 Audit Committee's Report
32 Remuneration Committee's Report

**Financial Statements**

40 Independent Auditor's Report
41 Consolidated Income Statement
41 Statement of Comprehensive Income
42 Statements of Changes in Equity
44 Statements of Financial Position
45 Consolidated Cash Flow Statement
46 Notes forming part of the Financial Statements

64 Corporate Advisors

www.matchtechgroupplc.com

# Highlights



**Group revenue**

£451.6m

↑ 10% (2013: £408.9m)

**Net Fee Income[1]**

£45.0m

↑ 17% (2013: £38.4m)

**EBITA**

£13.6m

↑ 27% (2013: £10.7m)

**Profit before tax**

£11.9m

↑ 20% (2013: £9.9m)

**Adjusted earnings per share[2]**

39.1 pence

↑ 19% (2013: 32.9 pence)

**Dividend per share**

20.0 pence

↑ 11% (2013: 18.0 pence)

1 Net Fee Income (NFI) is calculated as revenue less contractor payroll costs.
2 Adjusted results exclude the amortisation of acquired intangibles of £0.7m (2013: £0.2m).

# The Group at a Glance

Established in 1984 and AIM listed in 2006, we have become one of the UK's top specialist recruitment companies with revenue in excess of £450m. The Group consists of 2 business units: Engineering and Professional Services.

## Engineering (60% of NFI)

Skill shortages are driving increased demand for engineers highlighting the Group are in the right markets with our niche delivery capability allowing us to grow our market share.

### Matchtech is the UK's largest engineering recruitment business[1]

### Strategic Objectives

- Increase the share of contingency business within our 6 specialist sectors: Infrastructure; Energy; Automotive; Aerospace; Maritime and General Engineering
- Increase market share through highly selective major client acquisition and increased delivery to SMEs
- Take advantage of the improving market to increase permanent placement income
- Increase focus on higher level placements to improve profitability
- Use our engineering expertise to offer clients solutions to their international resourcing issues by attracting candidates from or deploying to overseas locations
- Maintain and build on our position as a 'thought leader' in the engineering sector
- Maintain our historically high levels of NFI to profit conversion ratio

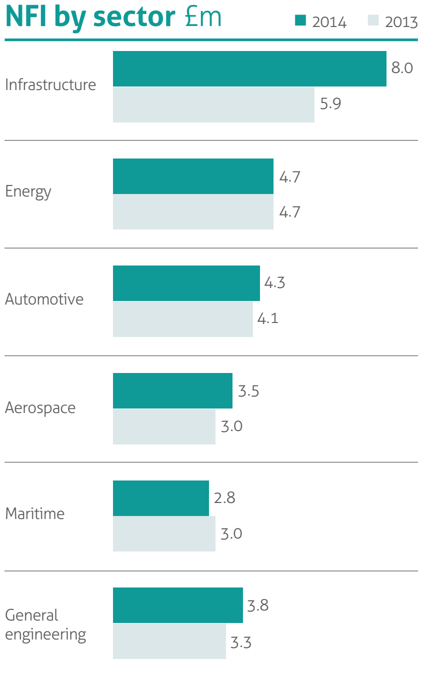
1 Source: Recruitment International Top 250 Report 2013.

### Net Fee Income 2014

Contract (83%, £22.6m)
Permanent fees (17%, £4.5m)

**£27.1m**

### NFI by sector £m



All operating brands in the Group share our core values and work towards a common purpose.

## Professional Services (40% of NFI)

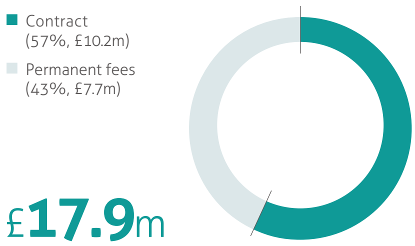
The 4 specialist brands enable the Group to deliver a tailored personal approach, targeting specific candidate communities and delivering a niche focus to our chosen markets. The acquisition of Provanis during the year has enhanced this.

### Specialists in Technology & Professional Staffing

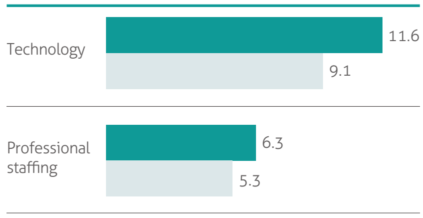
#### Strategic Objectives

- Focus on contingency business in our 7 key technology specialties: Controls & Automation; Electronics & Systems; Software; Communications & Infrastructure; Business Intelligence; ERP and Project Management
- Expand our international presence in technology markets
- Increase the penetration, sales and productivity of our professional staffing specialties: Procurement, Finance, HR, Sales & Marketing and Training
- Increase volume of higher level candidate placements
- Increase the NFI we generate per sales head
- Improve our NFI to profit conversion ratio

### Net Fee Income 2014




### NFI by sector £m



# Chairman's Statement

**Brian Wilkinson,** Executive Chairman

**Our 2017 Vision**
Market leading **specialist** recruiter

Employer of **choice**

Best **partner** to clients and candidates

Rapidly **developing international** business

**Premium** stock for investors

## The Investment Proposition

**Well Balanced**
Broad client relationships and business mix

**Established**
Strong track record of organic NFI and profit growth

**Specialist**
Niche sector expertise

**Flexible**
Efficient systems and high operational flexibility

**Resilient**
Contract business model

**Committed Funding**
Facilities of £60m

**Expert**
Capability and resources to increase market share in permanent recruitment

**International**
Expanding into selected markets

**Yield**
Solid dividend payout record

### Introduction
On behalf of the Board it gives me great pleasure to report a further year of progression for the Group, with adjusted earnings up 19% to 39.1 pence per share (2013: 32.9 pence).

Matchtech Group was incorporated in 1984 by George Materna, our founder and my predecessor as Chairman. On 1 August 2014 we celebrated the Group's 30th birthday and its remarkable achievements in that time.

I must thank George for his inspiration in creating Matchtech Group and for the legacy he bestowed to me when he stepped down from the Chairmanship.

### Strategy, Purpose and Vision
I joined Matchtech Group because I believed it was a great company with lots of potential and everything I have seen since arriving here in December 2013 has confirmed that view. We have a strong client proposition, good people, a terrific culture and the Group is financially sound.

During this year we have refined and sharpened our strategy so that we can do even better in the future. We have conducted research both internally and externally to ensure that we completely understand how the Group is seen by our staff, clients and candidates.

This has enabled us to agree on our Purpose, whereby we aim to engage our staff, delight our clients and promote our candidates.

This in turn has enabled us to build our Vision to 2017 and beyond.

We have a solid foundation based around our high quality people. We know that ongoing growth depends on us continuing to value and engage our staff, so this year we used our engagement survey to find out what they think of the Group.

Our overall engagement score was an outstanding 90% placing us in the top 5% of our benchmark group.

The survey confirmed that culture is one of the most important factors driving our engagement score. Our staff told us it was our culture and values that attracted them to us and these are the biggest reasons they stay. This demonstrates the huge importance our culture plays in the Group's success.

### The Board
During the year we said goodbye to Andy White, who left the business having joined the Board in 1990.

His counsel, energy and commitment to our business will be missed. I thank him on behalf of the Board and our shareholders for all his input over the years.

### Dividend
The Group's progressive dividend policy remains an important part of our investment proposition and having maintained the dividend through the recession we are pleased to add to last year's increase.

The Board recommends to shareholders a final dividend of 14.59 pence per share, an increase of 14% on last year.

This gives a total dividend for the year of 20.0 pence per share (2013: 18.0 pence) up 11% with an adjusted dividend cover increasing to 2.0 times (2013: 1.8 times).

If approved by shareholders at the Annual General Meeting, to be held on 14 November 2014, the final dividend will be payable on 5 December 2014 to those shareholders registered on 7 November 2014.

### Outlook
With a clear purpose and vision, a refined strategy and an engaged workforce I am more confident than ever that we can continue to outperform our competitors and deliver excellent returns to our shareholders.

**Brian Wilkinson**
Executive Chairman
14 October 2014

## Adjusted earnings per share[1]

**+19%**

39.1 pence (2013: 32.9 pence)

## Dividend per share

**+11%**

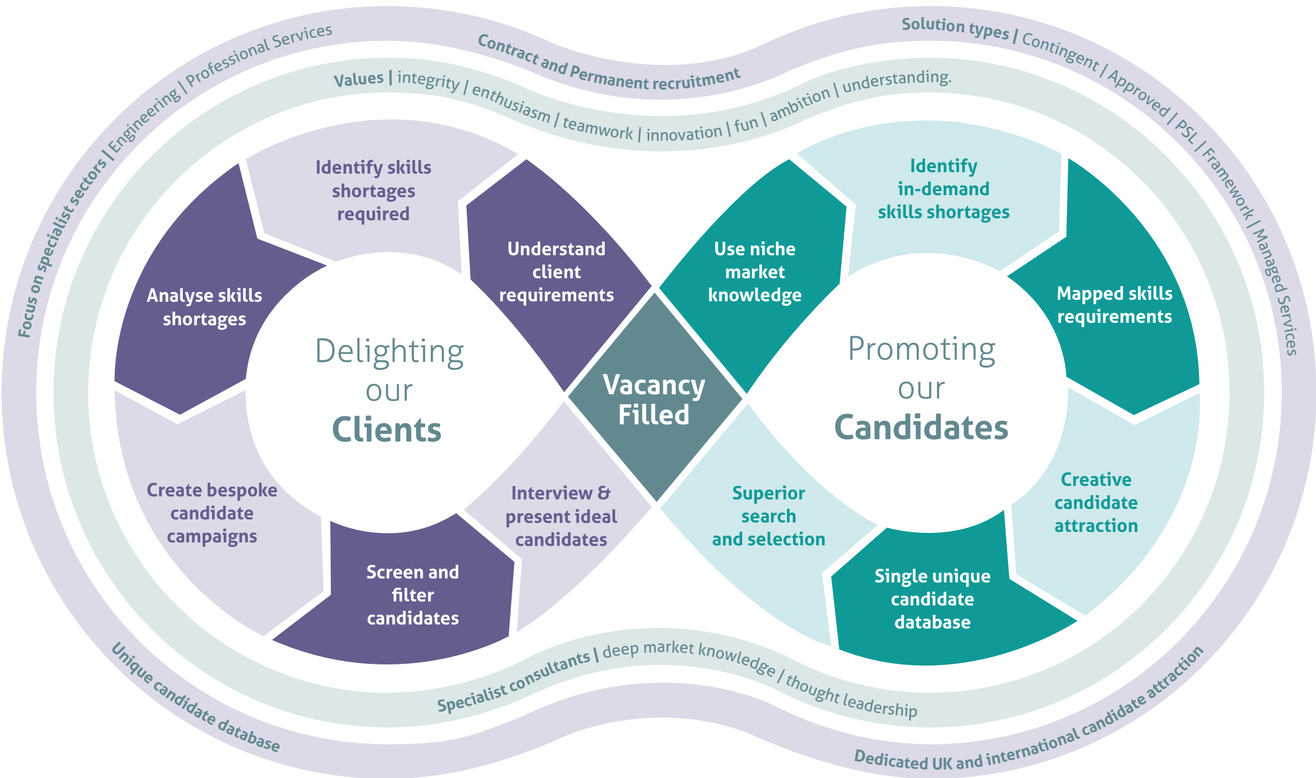
20.0 pence (2013: 18.0 pence)

1 Adjusted results exclude £0.7m (2013: £0.2m) of amortisation from acquired intangibles.

# Sharpen our focus
# Move up the value chain
# Go global

# Our Business Model

## As a specialist recruitment Group we provide niche permanent and contract recruitment through different solutions to meet our clients' and candidates' needs.




We aim to complement our clients' recruitment capabilities, adding value by filling roles our clients cannot fill themselves and providing specialist expertise in our chosen markets.

As a customer centric business we recently asked our clients and candidates for feedback on our services. Based on this, we have refocused our strategy to ensure our services are tailored to their needs.

**Engaging our staff**
In an industry where differentiation is difficult, our true USP is our people. Our specialist consultants are experts in their chosen niche markets and have extensive networks and partnerships with key industry organisations. They focus on being consultants to clients and candidates, not just recruiters, developing long term relationships and an in-depth understanding of their needs. The results of our recent staff engagement survey show that they are highly engaged, which leads to a better experience for clients and candidates.

**Delighting our clients**
Our clients want to know we are going the extra mile for them. They take it as a given that we will have relevant candidates, that we will know their industry and that we represent good value for money. To ensure clients choose us, we add value through the depth of our market knowledge, sharing valuable market intelligence and gaining an understanding of their company, including their culture and values. This makes it easier for us to find them the best candidates, from the UK and overseas.

**Promoting our candidates**
We strive to provide a personalised service, developing relationships which last across a candidate's career, not just one placement. Our consultants take the time to develop a deep understanding, not just of a candidate's skills and experience, but also of their career goals and values, to ensure we promote them effectively and place them in a role and a company which is right for them. Our candidates also value the market knowledge we provide.

We believe the Group is already in a strong position relative to our candidates' and clients' priorities. We feel that our unique culture, underpinned by our values, will enable us to outperform our competitors.

# Our Strategy

| | | | |
|---|---|---|---|
| **Sharpen our focus** | Invest in attractive markets | Greater scale yet even more specialist | Go-to recruiter in our chosen markets |
| **Move up the value chain** | Place higher level candidates | Work with clients who value service | Charge right price for quality service |
| **Go global** | Attract international candidates | International opportunities for candidates | Follow key clients overseas |

**Sharpen our focus**
We have mapped our most attractive markets against our areas of strongest capability.

We are investing heavily in additional consultants, most of whom are going into what we have determined to be growth markets, making sure that we realise the potential of these in the medium term.

We will have bigger, stronger teams in our chosen areas, specialising to a greater extent than ever before which, in turn, will increase the impact we make in the market.

More sales people means increasing client contact, generating more and better quality job flow.

More quality jobs mean more candidates applying to us, enabling us to provide a better service to our clients.

More specialist consultants enable us to become more active in our chosen markets, produce more white papers, exploit more speaking opportunities and write more blogs.

This creates a virtuous circle. We become acknowledged experts in our chosen field and we become the people to go to for candidates and clients in the sectors where we can be most successful.

**Move up the value chain**
This covers both contract and permanent recruitment.

In contract recruitment, moving up the value chain is about increasing our average contract margin percentage.

We will achieve this by working with clients who really value the service that we provide and do not see it as a commoditised product.

There are acute skills shortages in many of our markets. Our expertise is sourcing and placing hard to find candidates, which is difficult and adds real value.

Our clients expect to charge the right price for their services and we should do the same.

The permanent recruitment market is changing. Many clients now source junior level candidates in-house. We ensure we have innovative methods to source hard to find candidates that clients don't have access to themselves.

The Group is now focusing on and placing more senior, higher salaried candidates.

Achieving these objectives will drive profitable growth.

**Go global**
Globalisation is affecting every industry and market.

Many of our clients are international companies and those who are not are increasingly being acquired by global groups.

Our candidates are valued internationally due to the strong reputation of British trained engineers and technologists.

In order to solve our clients' skills shortage problems we are increasingly turning to offshore markets to source candidates.

It follows that the Group must internationalise its business whilst ensuring that our hard earned reputation for cost efficiency is not lost. We have a clear plan to do so.

# Chief Executive's Review

"The Group has continued its track record of delivering year-on-year organic double-digit growth in NFI with both the average permanent fee and contract margins increasing."

**Adrian Gunn,** Chief Executive Officer

## Maximising performance

This has been another successful year with strong performance across the Group.

Our focus as a specialist recruiter, on higher margin, harder to fill roles is bearing fruit.

We are focused on putting the right value on the quality service we provide. By increasing our staff's ability to appreciate their own added value, we have improved their negotiating confidence which, in turn, has increased margins whilst maintaining nurtured client relationships.

Whilst contractor numbers on assignment, excluding the Provanis acquisition, has increased by only 100 to 7,100 from the 7,000 we had at the start of the year, we have grown the Net Fee Income (NFI) we generate from contract recruitment by 14%.

We have replaced the contractor reductions at Portsmouth Naval Base with better paid, higher margin contractors elsewhere. We increased our contract margin percentage from 6.8% last year to 7.5% this year which equates to 10% more NFI from the same revenue and this, along with wage inflation and placing candidates at higher pay rates, has driven the NFI forward.

In 2014 we also made over 3,000 permanent placements, generating in excess of £12m in fees.

However, whilst the UK economy is in recovery mode, the acute skills shortage means that candidates are finding themselves with multiple job offers. This leads to more offer rejections and counter offers from incumbent employers, somewhat elongating the time to hire and slowing the growth in permanent fees.

We have maintained a healthy business mix with contract NFI now representing 73% and permanent fees 27% of Group NFI.

The Group has continued its track record of delivering year-on-year organic double-digit growth in NFI with both the average permanent fee and contract margins increasing.

The acquisition of Provanis has added to our capabilities. It has been successfully integrated into the Group and has positively impacted on profitability.

Having mapped our most attractive markets against our teams of strongest capability, we have identified the areas of greatest potential.

We continue to invest heavily in additional consultants, particularly focusing on increasing our consultant headcount within Engineering in the first half of FY2015.

We refined our 2017 Vision for the Group to be the market leading specialist recruiter within Engineering and Technology, the employer of choice, the best partner to clients and candidates with a rapidly developing international business and being a premium stock for investors.

The Group is ideally placed to benefit from the very strong demand in the UK and worldwide for skilled engineers and this demand is increasing as the global economy recovers and manufacturing output rises.

Our niche Engineering and Technology focus, market leading position and balanced business model of contract and permanent recruitment put us in a good position to take advantage of these trends.

I look forward to reporting on further progress throughout the coming year.

# Key performance indicators

## Revenue £m

| | |
|---|---|
| **2014** | **451.6** |
| 2013 | 408.9 |
| 2012 | 371.4 |
| 2011 | 301.8 |
| 2010 | 264.4 |

↑10%

## Net Fee Income £m

| | |
|---|---|
| **2014** | **45.0** |
| 2013 | 38.4 |
| 2012 | 36.1 |
| 2011 | 29.8 |
| 2010 | 26.2 |

↑17%

## NFI conversion[1] %

| | |
|---|---|
| **2014** | **30** |
| 2013 | 28 |
| 2012 | 24 |
| 2011 | 23 |
| 2010 | 34 |

↑2ppts

## EBITA £m

| | |
|---|---|
| **2014** | **13.6** |
| 2013 | 10.7 |
| 2012 | 8.7 |
| 2011 | 6.8 |
| 2010 | 8.8 |

↑27%

## Adjusted profit before tax[1] £m

| | |
|---|---|
| **2014** | **12.6** |
| 2013 | 10.1 |
| 2012 | 8.0 |
| 2011 | 6.4 |
| 2010 | 8.6 |

↑25%

## Adjusted diluted EPS[1] pence

| | |
|---|---|
| **2014** | **36.9** |
| 2013 | 31.6 |
| 2012 | 23.5 |
| 2011 | 19.7 |
| 2010 | 26.0 |

↑17%

## Operating cash conversion %

| | |
|---|---|
| **2014** | **121** |
| 2013 | 110 |
| 2012 | 106 |
| 2011 | –72 |
| 2010 | 43 |

↑11ppts

## Net debt £m

| | |
|---|---|
| **2014** | **–3.1** |
| 2013 | –10.5 |
| 2012 | –14.5 |
| 2011 | –16.0 |
| 2010 | –4.5 |

↓7.4m

## Dividend per share pence

| | |
|---|---|
| **2014** | **20.0** |
| 2013 | 18.0 |
| 2012 | 15.6 |
| 2011 | 15.6 |
| 2010 | 15.6 |

↑11%

1 Adjusted results exclude £0.7m (2013: £0.2m) of amortisation from acquired intangibles.

## Engineering

### The Engineering sector delivered 13% growth in Net Fee Income (NFI) to £27.1m, with a 15% increase in Contract NFI and Permanent Fees slightly ahead of the prior year.

Infrastructure was our strongest performing area with a 36% increase in NFI on the back of major investment in rail, highways, utilities and building structures. Network Rail announced £38bn of funding into engineering projects and the Highways Agency delivered record spending reports, increasing confidence to the infrastructure sector. Both private and public organisations throughout the industry proactively targeted niche engineering talent, resulting in increased activity across both contract and permanent recruitment.

Aerospace NFI grew by 17% as the design and engineering phases of the A380, A400m and A350 moved into volume manufacturing, resulting in the UK having an order backlog of more than 10 years.

NFI in Automotive was up 5%, there were sustained high levels of investment from Jaguar Land Rover (JLR) and increased levels of interest in UK automotive capability from developing countries.

Energy produced similar NFI to the previous year, the Nuclear division (Defence and New Build) recorded strong growth, whilst our Oil & Gas team was impacted by stalling North Sea investment.

As expected Maritime was impacted by the planned completion of the QEC aircraft carrier build phase at Portsmouth Naval Base, but with NFI down only 7% year on year this highlights our ability to supply into shipyards nationally.

Our low risk international strategy of following key clients has led us to place candidates in 30 countries from our UK office. Our German business continues to be challenging but operational results have shown an improved performance compared to 2013.

Engineering has continued to differentiate its recruitment service by providing a clear focus on niche and specialist skills, whilst also positioning ourselves as authoritative thought leaders in the sector.

Gaining credibility with engineering industry stakeholders through association and partnerships is key and we have continued to provide valuable market intelligence and balanced opinion, as well as facilitating events and highlighting recommendations and actions in order to address the skills gap.

In partnership with the Institute of Marine, Engineering Science & Technology (IMarEST), a report, 'Mitigating the Skills Gap', in the Maritime and Oil & Gas Market, identified 16 recommendations to government, educators and industry which are being implemented through the Marine Industries Alliance and the UK National Engineering, Science and Technology Forum (UK NEST).

Our annual 'Confidence Index' which examines, by sector, how confident engineers are about a variety of different career related issues, including career progression, job security and salary, attracts a healthy amount of debate, media coverage and interaction with the Department of Business Innovation and Skills.

We provided valuable insight on recruitment trends within the engineering community contributing to a high profile report 'Inventing the Future', which was produced by the New Engineering Foundation. Submitted to Government the report challenges the way Science, Technology, Engineering and Mathematics (STEM) education subjects are delivered, managed and funded.

Our new partnership with Women in Engineering Society (WES) supports activities such as 'National Women in Engineering Day' which attracted an overwhelmingly positive response from clients, candidates and EngineeringUK.

We are committed to addressing the skills gap by addressing diversity, supporting a pipeline of talent, exploring the advantages of skills transfer, celebrating engineering excellence, promoting engineering as the career of choice and maintaining a focus on attracting and retaining talent to ensure a long-term sustainable engineering future for UK industry.

**Keith Lewis,** Managing Director, Matchtech UK

## Professional Services

### The Professional Services sector delivered £17.9m of Net Fee Income (NFI) up 24% (2013: £14.4m) and now generates 40% of the Group's NFI.

Excluding £1.8m of NFI generated from the acquisition of Provanis, underlying NFI grew by 13%. Contract NFI was up 34% to £10.2m (2013: £7.6m), 11% on an underlying basis, and Permanent Fees were up 13% to £7.7m (2013: £6.8m).

With Provanis generating almost all its business from contractors, there has been a shift in the business mix within Professional Services with contract now generating 57% of NFI (2013: 53%) and Permanent Fees 43% NFI (2013: 47%).

Technology, which is the largest part of Professional Services, increased NFI by 27%, 8% excluding Provanis and has a business mix of 83% contract and 17% permanent fees.

Technology operates seven niche teams within Controls & Automation, Electronics & Systems, Software, Communications & Infrastructure, Business Intelligence, ERP and Project Management. These specialist teams focus on higher margin, lower volume contingency business.

A centralised Corporate Accounts Team has also been set up to service our high volume, lower margin framework agreements more profitably.

Provanis, the niche Oracle Applications agency acquired in September, has accelerated our penetration into the ERP marketplace. Provanis has been successfully integrated into the business, with an outturn NFI conversion ratio in excess of 60%.

Professional Staffing NFI was up 19% with strong growth in permanent fees giving a business mix of 27% contract and 73% permanent fees.

Similar to Technology, Professional Staffing operates within skill specific teams who focus on Procurement, Finance, HR, Sales & Marketing and Training. These specialist teams are split across two recruitment centres, London and Whiteley and as well as being skill specific these teams only focus on four key sectors including Engineering and Technology.

This clearly defined remit is accelerating new client acquisition, improving the candidate experience and helping identify cross selling opportunities between brands. This strategy also underpins our primary objective of driving up productivity levels within Professional Services and we have the capacity to increase this productivity within our existing staff levels before further headcount investment is required.

**Stuart Feest,** Managing Director, Connectus and Provanis

# Responsible Employer

## Working together to have a positive social impact and ensure continuous improvement for a sustainable future, whereby interests of all stakeholders – investors, clients, employees, the community and the environment – underpins our business.

The Group's approach to being a Responsible Employer has been developed following a review of our impact in 4 key areas: workplace, marketplace, environment and community.

### Workplace

Our people are crucial to the success of the business and build on our reputation for delivering excellence.

The Group recognises that there is a direct correlation between employee engagement and business results. We are proud the Group achieved an outstanding 90% engagement score in our 2014 Staff Engagement Survey, placing the Group in the top 5% of the benchmark group.

Through the results of our Staff Engagement Survey, the Group has again demonstrated that we provide an excellent place to work. Our Responsible Employer Strategy commits to building and fostering a working environment where our people can excel in their performance and can continually develop and succeed professionally to deliver a high quality service to our clients.

Our employees display commitment to our strong values, and appreciate the Group's vibrant and positive culture. We recognise that our employees are different and have different hopes and aspirations and the Group has committed to investing in flexible learning and development programmes to enable our staff to 'choose your route'.

We encourage our employees to be responsible citizens, both towards each other and in the wider community. Our Code of Professional Conduct places a great emphasis on Fair Treatment.

We support our employees through giving them time off for volunteering, providing payroll giving facilities, supporting fundraising activities through sponsorship and giving employees the opportunity to utilise the Group's resources to maximise their chance of achieving fundraising targets.


### Marketplace

Our clients demand the highest professional standards and processes and we aim to be honest, open and ethical in all of our interactions.

We take transparency seriously because we want our stakeholders to feel confident in our delivery. To this end we will drive and maintain the highest standards of accountability, scrutiny, transparency and reporting.

The Group is committed to the maintenance of high ethical standards and these standards are applied to all Directors and employees.

We invest a great deal of time in developing relationships with existing and future clients that are driven by creating and delivering bespoke recruitment projects and programmes.

## Environment

The Group recognises that it has a clear obligation and aims to ensure that it operates in a manner which minimises the impact of its business operations on the environment. The Group is committed to its Environmental Policy and seeks to ensure its employees, contractors and suppliers meet the same objective.

We have recently introduced a number of recycling projects as well as new technologies to encourage the use of video conferencing. The Group now measures our Carbon Footprint and devoted a week in May 2014 to 'Green Week' to raise awareness of our environmental responsibilities.

Our objective is to endeavour to minimise the impact on the environment through continual improvement and be recognised in doing this through the ISO 14001 accreditation.

## Community

The Group believes that the communities where we operate should benefit directly from our presence through the investment of our time and money in the community along with the jobs and wealth created.

We continue to work with our partners, Business in the Community (BITC) and more recently STEMnet, to support and contribute to community projects that benefit the local areas to our offices. In particular we aim to support them through utilising our skills in the recruitment and employment arena to further the prospects of the local individuals and provide them with skills and tools to gain employment.

Through our CSR Committee the Group engages with all its brands to choose the charities and volunteering projects that employees wish to support and engage with.

We encourage staff to favour projects that reflect our corporate values and priorities. This year we are pleased to report that our employees raised £32,000 for a number of charities chosen by our staff.

Fundraising initiatives have included involvement in the JP Morgan Chase Challenge, London and Paris Marathons, Charity Golf Day and Tough Mudder.

All of our staff are encouraged to take part in charity fundraising activities and the Group devotes a minimum of one day per quarter to such activities.

# Chief Financial Officer's Report

Tony Dyer, Chief Financial Officer

"Despite a 10% increase in revenue we have managed our debtor book well resulting in no additional working capital requirements."

**Performance**

Net Fee Income (NFI) grew by 17% to £45.0m (2013: £38.4m). Excluding a £1.8m contribution from the Provanis acquisition made during the year, NFI grew by 13%.

This was against the backdrop of a growth in revenue of 10% to £451.6m (2013: £408.9m). This lower growth in revenue than NFI reflects the increase in our contract margin from 6.8% last year to 7.5% this year, as we focus on new contingency business rather than large, lower margin framework contracts.

Contract NFI grew by 21% to £32.8m (2013: £27.2m), with the key drivers of this growth being the Provanis acquisition (7%), increasing margins (5%) with the balance of a combination of volume, higher pay rates and hours worked. Contractor numbers on assignment at 31 July 2014 grew by 3% to 7,200 (31 July 2013: 7,000).

Permanent recruitment fees were up 9% to £12.2m (2013: £11.2m).

The following adjusted results exclude £0.7m (2013: £0.2m) of amortisation from acquired intangibles.

EBITA was up 27%, to £13.6m (2013: £10.7m), reflecting a NFI conversion rate of 30%, up 2 percentage points (2013: 28%).

Adjusted profit before tax of £12.6m was up 25% (2013: £10.1m).

The Group's effective tax rate has fallen to 23.6% (2013: 23.9%).

Adjusted basic earnings of 39.1 pence per share rose 19% (2013: 32.9 pence) with adjusted diluted earnings per share of 36.9 pence up 17% (2013: 31.6 pence).

**Dividends Paid**

In the year the Group paid a final dividend of £3.17m at 12.85 pence per share on 6 December 2013 (£2.48m at 10.6 pence per share on 7 December 2012) and an interim dividend of £1.35m at 5.41 pence per share on 20 June 2014 (£1.17m at 5.15 pence per share on 21 June 2013).

**Capital Expenditure and Tangible and Intangible Assets**

Capital expenditure in the year was £0.3m (2013: £0.9m). Tangible assets at 31 July 2014 of £1.3m (2013: £1.7m) consist of the Group's motor fleet, office equipment, leasehold improvements and computer equipment.

Intangible assets at 31 July 2014 were £3.7m (2013: £0.6m), £3.3m relating to the acquisition of Provanis: £1.7m of unamortised acquired intangible assets and £1.6m of goodwill, and external software licences of £0.4m which are amortised over the expected life of the licence.

**Working Capital, Cash Flow and Net Debt**

Debtor days at the year end improved by 3 days to 46 (31 July 2013: 49).

Net cash from operating activities was £12.3m (2013: £8.5m) with an operating cash conversion of 121% (2013: 110%).

Net debt at 31 July 2014 was £3.1m (31 January 2014: £8.6m, 31 July 2013: £10.5m), consisting of a working capital facility of £3.3m (2013: £11.4m), bank overdrafts £0.4m (2013: £0.1m) less cash £0.6m (2012: £0.9m) and capitalised finance costs £nil (2013: £0.1m).

**Banking Facilities**

On 30 July 2014 the Group agreed to transfer its banking relationship to HSBC.

The new agreement is a three year, £60m Invoice Financing Facility, at a lower rate of 1.1% over HSBC bank base rate.

**Net debt**

£3.1m

↓ 71% (2013: £10.5m)

**Operating cash conversion**

121%

↑ 11ppts (2013: 110%)

**Debtor days**

46 days

↓ 3 days (2013: 49)

**EBITA**

£13.6m

↑ 27% (2013: 10.7m)

### Group Consolidated Statement of Financial Position

At 31 July 2014 the Group had net assets of £42.7m (2013: £32.3m) and had 25.0m fully paid ordinary shares in issue (2013: 23.6m).

### Critical Accounting Policies

The Statement of Significant Accounting Policies is set out in Note 1 to the Financial Statements.

The Board considers that the estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are the measurement of tangible assets (where the Group estimates useful lives for the purposes of depreciation).

### Group Financial Risk Management

The Board reviews and agrees policies for managing financial risks. The Group's Finance function is responsible for managing investment and funding requirements including banking and cash flow monitoring. It seeks to ensure that adequate liquidity exists at all times in order to meet its cash requirements.

The Group's financial instruments comprise borrowings, cash and various items, such as trade receivables and trade payables that arise from its operations. The main purpose of these financial instruments is to finance the Group's operations. The Group does not trade in financial instruments. The main risks arising from the Group's financial instruments are described below.

### Liquidity and Interest Rate Risk

The Group had net debt of £3.1m at the year end, comprising £3.7m debt less £0.6m cash. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's bank loan and sales financing facility debt obligations. Bank interest is charged on a floating rate basis.

### Credit Risk

The Group trades only with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within the Group, with no single debtor accounting for more than 9% (2013: 18%) of total receivables balances at 31 July 2014.

### Foreign Currency Risk

The Board considers that the Group does not have any material risks arising from the effects of exchange rate fluctuations.

The Strategic Report has been approved by the Board and signed on its behalf by.

**Tony Dyer**
Chief Financial Officer
14 October 2014

# Governance

# Principal Risks and Uncertainties

The Group has a number of potential risks and uncertainties which could have a material impact on its long-term performance. Many of these are common to other companies. We recognise that effective risk management is fundamental to helping achieve our strategic objectives.

**Board**
The Board of Directors meets at least once a month.
It incorporates the consideration of risks as a part of its decision making process.

**Executive Leadership**
The Executive management regularly review the risks to the business and report to the Board

**Risk Management**
Strategies to mitigate the key risks and their potential impact on the Group are regularly discussed and reviewed by the Board and the Executive

**Audit Committee**
Reviews the effectiveness of the Group's internal control procedures and risk management systems

## Financial & Compliance

| Risk Area and Potential Impact | Mitigation |
|---|---|
| **Financing** A failure to secure adequate financing, whether to fund expansion, to finance the slowing of payment terms or finance a bad debt, would have a material effect on results.<br>The level of contract margins, net fee income conversion, contract versus permanent balance and the speed of growth all affect the Groups ability to generate cash. | We maintain a strong balance sheet with low gearing;<br>Net debt as at 31 July 2014 was £3.1m, with a new committed banking facility of £60m;<br>We hold regular discussions to ensure we have the bank's backing to fund strategic plans;<br>We have procedures to check the creditworthiness of new clients with external agencies and regularly reviewed credit limits in place. |
| **Integrity of financial controls** A failure to maintain sufficient financial controls may lead to reputational damage, financial loss or incorrect financial information used to manage the business. | The Group maintains a financial control framework which is reviewed and audited annually;<br>The controls include the Board review of the Group's performance each month;<br>An external audit is performed on the Financial Statements. |
| **Compliance and regulatory obligations** Navigating the business through the large number of compliance and regulatory changes has become more complicated. Non-compliance places risk upon clients and the Group. | The Group works closely with its in-house compliance team, its financial and legal advisors and recruitment governing bodies, such as the Recruitment and Employment Confederation (REC) and the Association of Professional Staffing Companies (APSCo), to ensure that the business is up-to-date on these issues and that the appropriate systems and processes are in place. |

## Market

| Risk Area and Potential Impact | Mitigation |
|---|---|
| **The economic cycle** The level of recruitment activity is largely linked to the general performance of the economy. A cyclical downturn can lead to uncertainty in businesses, which affects their confidence in the recruitment of permanent staff. | The engineering sector, because of its project-based nature, demands a flexible workforce which drives demand for contract labour and the Group's client base largely consisting of businesses working on long-term projects. 73% of the Group's Net Fee Income (NFI) is recurring contract business across a broad range of sectors and clients. |
| **Dependence on key clients** Too great an exposure to one or a few clients can lead to an over reliance on those clients. In the event that any major client ceases to procure services from the Group, or such a client does not pay for services provided by the Group in a timely manner, this may have a material adverse effect on cash flow. | The Group has over 1,800 fee paying clients;<br>• Top client 4% of Group NFI;<br>• Top 5 clients 14% of Group NFI;<br>• Top 10 clients 21% of Group NFI;<br>• Top 50 clients 47% of Group NFI.<br>The Group's Public Sector funded NFI is derived from many parts of the Public Sector, with few large concentrations of contractors working on single projects. Approximately three-quarters of this Public Sector funded NFI is generated with outsourced providers working on long-term contracts and ongoing infrastructure projects. |
| **Competition** The recruitment market is highly fragmented and competition is intense. | The Board and Executive regularly meet to discuss and agree strategy to minimise this risk, and recognise the importance of its Bids and Tenders capability to ensure that it maximises opportunities within the marketplace. The Group undertakes a regular client framework review, seeking to ensure it minimises the risk of losing clients to competitors. |
| **Investment in new sectors and geographical markets** Failure to expand into new markets could result in a business growing within a specific sector and eventually reaching a saturation point. | Having diversified into the Professional Services market and operating in 2 strategic locations in the UK, the Group continues to review the opportunities to expand further domestically. The Group has supplied candidates into over 20 countries this year, continuing to explore client led opportunities across the world and the acquisition of Provanis has given further penetration into the European marketplace. |
| **Shortage of skilled candidates** In a candidate shortage marketplace there is increased competition for highly skilled engineers in many sectors. | The Group employs a resource team that reviews the internet job boards for the most up-to-date candidates and search engine optimisation seeks to ensure that the Group's website is one of the primary results returned from internet searches for jobs in our sectors, driving candidates directly to our database. |

## Strategic & Operational

| Risk Area and Potential Impact | Mitigation |
|---|---|
| **Loss of key management and staff** Failure to attract and retain key staff could lead to a lack of necessary expertise or continuity to execute strategy. | The Group gives its staff a clear structured career path within Group businesses whilst maintaining flexibility by allowing talent to be utilised across the Group;<br>By maintaining our niche focus we develop our business through empowering our talented staff to specialise and grow their own parts of the business;<br>The Group maintains short lines of communication to senior managers and the Board. |
| **Technology systems including data security** There is a risk that IT systems become out of date, external software suppliers become inflexible or that the business is over reliant on external systems and databases. | The Group has undertaken a review of its technology systems. It is now embarking on a programme of works to update and enhance these making greater use of propriety products. We will extend those propriety products where it provides us competitive advantage using the in-house team. The aim is to ensure that the systems are able to support the business through its next growth phase, improve productivity and efficiency and improve the risk profile of its suppliers. |
| **Loss of business continuity** Operating from one site can lead to a risk from loss of business continuity. | The Group's business continuity strategy includes a highly resilient infrastructure within the Group's main multi-building site in Whiteley, Hampshire;<br>The Group has also contracted a further disaster recovery facility where our staff would relocate to in the event of a major disaster. |

# Board of Directors

## Executive Directors

**Expertise:** The Group seeks to have a Board constitution that is diverse and comprises individuals with the appropriate and relevant background and experience.

Brian Wilkinson
Executive Chairman

**Date of appointment**
Group: December 2013
Board: December 2013

**Committee membership**
None

**Skills and experience**
Brian Wilkinson joined the Company in December 2013. He has worked in the recruitment industry for over 30 years, most recently as an Executive Board member of Randstad Holdings NV ('Randstad'), the world's 2nd largest recruitment company. He has extensive experience of international strategic development, including through merger and acquisition, and extensive experience of professional services recruitment.

Adrian Gunn
Chief Executive Officer

**Date of appointment**
Group: September 1988
Board: August 2004

**Committee membership**
None

**Skills and experience**
Adrian has over 25 years' experience in the recruitment industry. Adrian is a Fellow of the Institute of Recruitment Professionals and has served as a Council Member of the Recruitment and Employment Confederation. He is a member of the CBI's Employment and Skills Board and a Regional Council Member for the South East. Adrian joined the Group in 1988 as a recruitment consultant and was appointed a Divisional Director in 1998. He was appointed to the Board in 2004 as Business Development Director and Group Sales Director in 2005. Adrian took over as Chief Executive Officer in 2007 and heads the Executive Team.

Tony Dyer
Chief Financial Officer

**Date of appointment**
Group: January 1996
Board: August 2004

**Committee membership**
None

**Skills and experience**
Tony is a Fellow of the Chartered Institute of Management Accountants. After qualifying in 1995 he joined the Group in 1996. Following a period as Management Accountant and Financial Controller, he was appointed to the Board in 2004. Tony was instrumental in taking the Group through its successful IPO in 2006.

Tony is Chairman of the Central South Regional Board of the Chartered Institute of Management Accountants and has served as Hampshire's Branch President for several years.

Keith Lewis
Managing Director, Matchtech UK

**Date of appointment**
Group: July 1993
Board: September 2012

**Committee membership**
None

**Skills and experience**
Keith is the Managing Director of Matchtech and is responsible for all its operations across the Engineering sector. Keith, a Fellow of the Institute of Recruitment Professionals, joined us in 1993 as a Senior Consultant, before progressing to his current position. Keith is also on the Steering Committee for the Engineering and Technical sector at the Recruitment and Employment Confederation.

# Non-Executive Directors

## George Materna
Non-Executive Deputy Chairman

**Date of appointment**
Group: July 1984

**Committee membership**
Chairman of the Nominations Committee

**Skills and experience**
George has 35 years' experience in the recruitment industry and is the founder of the Group, having founded Matchmaker Personnel in 1984 and Matchtech Engineering in 1990, before combining the 2 businesses in 2002 to form Matchtech Group plc. George is a Fellow of both the Institute of Recruitment Professionals and the Chartered Institute of Personnel and Development.

## Ric Piper
Senior Independent Director

**Date of appointment**
Board: July 2006

**Committee membership**
Chairman of the Audit Committee;
Member of the Remuneration Committee

**Skills and experience**
Ric qualified as a Chartered Accountant in 1977. He held senior finance roles in ICI, Citicorp and Logica, becoming Finance Director of Logica (UK) in 1990. He was Group Finance Director of WS Atkins from 1993 to 2002. Since 2003 he has been involved at Board level and has advised on the growth and development of Main Market, AIM and privately owned companies. Ric is a Partner at Restoration Partners, which advises technology businesses, and a member of the Financial Reporting Review Panel.

## Stephen Burke
Non-Executive Director

**Date of appointment**
Board: July 2006

**Committee membership**
Chairman of Remuneration Committee;
Member of the Audit Committee

**Skills and experience**
Stephen has over 25 years' experience in the recruitment industry having joined Michael Page in 1981 after graduating from Durham University. He was appointed as a Director of Michael Page International in 1988 with responsibility for development of overseas businesses. He returned to the UK in 1996 and held 2 divisional Managing Director roles before being appointed Managing Director of Michael Page in the UK, and a Director of Michael Page International plc from 2001 until 2005. Stephen was appointed Chief Executive Officer of Healthcare Locums plc in May 2011.

## Richard Bradford
Non-Executive Director

**Date of appointment**
Board: August 2011

**Committee membership**
Member of the Nominations Committee

**Skills and experience**
Richard has a background in solutions and services businesses. He was Chief Executive of AIM-listed Carlisle Group from 1997 to 2008, up to and including the merger to create Impellam Group, and subsequently Chief Executive of LPM Group, a private equity backed mid-market group of facilities management investments. He is currently Chief Executive Officer of UK-based InHealth Group, a leading provider of diagnostics and imaging services.

## Rudi Kindts
Non-Executive Director

**Date of appointment**
Board: March 2012

**Committee membership**
Member of the Remuneration Committee;
Member of the Nominations Committee

**Skills and experience**
Rudi is a Belgian national with 25 years' experience in transnational Human Resources Management. He developed his executive career initially with Alcatel and British American Tobacco, where he held a number of senior HR roles across the Group. He was appointed Group HR Director of the FTSE 100 company in 2004 and left in 2011. Rudi is currently an Associate with Criticaleye – The Network Of Leaders and Executive Mentor at Merryck and Co. He collaborates with The Henley Centre for HR excellence and is an Associate Consultant with Duke Executive Education. Rudi is a member of the Advisory Board of Thirsty Horses Limited and is a Partner with TheCoachingHouse.

## Andy White
Non-Executive Director

**Date of appointment**
Board: August 1990

**Date of resignation**
Board: 16 June 2014

# Directors' Report

## Principal Activities and Business Review

Matchtech Group plc is the ultimate holding company of a group of companies.

A full description of the Group's principal activities, business performance, likely future developments, principal risks and uncertainties and information on dividends are provided in the Strategic Report and are incorporated into this report by reference.

A list of principal subsidiary undertakings and the countries in which they operate, is disclosed in Note 13 to the Financial Statements. Details on the use of financial instruments and financial risk management are included in Note 22 to the Financial Statements and are also incorporated into this report by reference.

## Directors

The Directors who served during the period, at the date of this report and their biographical details set out on pages 22 and 23. Directors interests in shares and share options of the Company are shown in the Directors' Remuneration Report.

Under the Company's Articles of Association all Directors must retire at the first Annual General Meeting (AGM) following their appointment and may offer themselves for election by shareholders.

In line with the requirements of the UK Corporate Governance Code which the Company has voluntarily chosen to comply with, all other Directors will retire at the AGM and, being eligible, will offer themselves for re-election.

The Board considers that the performance of each of the Directors continues to be effective and that each of them demonstrates a strong commitment to their role.

Directors and Officers of the Company and its subsidiaries benefit from Directors' and Officers' liability insurance cover, in respect of legal actions brought against them. In addition, Directors of the Company are indemnified in accordance with Article 170 of the Company's Articles of Association, to the maximum extent permitted by law. Neither the insurance nor the indemnities provide cover where the relevant Director or Officer has acted fraudulently or dishonestly.

The Board may exercise all the powers of the Company, subject to the provisions of relevant legislation, the Company's Articles of Association and any directions given by a special resolution of the shareholders. Specific powers are detailed in the Company's Articles of Association, including the power to issue and buy back shares, along with the rules for the appointment and removal of Directors.

## Directors' Conflicts of Interests

Each Director is required, in accordance with the Companies Act 2006, to declare any interests that may give rise to a conflict of interest with the Company on appointment and subsequently as they arise. Where such a conflict or potential conflict arises, the Board is empowered under the Company's Articles of Association to consider and authorise such conflicts as appropriate.

## Articles of Association

The Company's Articles of Association set out the Company's internal regulation and cover such matters as the rights of shareholders, the appointment and removal of Directors, the power to issue and buy back shares and the conduct of the Board and general meetings.

A copy of the Company's Articles of Association is available on the Group's website (www.matchtechgroupplc.com) or on request from the Company Secretary.

Amendments to the Articles of Association must be approved by at least 75% of those voting in person or by proxy at a general meeting of the Company.

In accordance with the Company's Articles of Association, Directors can be appointed or removed by the Board or by shareholders in a general meeting. Subject to the provisions of relevant legislation, the Company's Articles of Association and any directions given by a special resolution of the shareholders, the Board may exercise all the powers of the Company and may delegate authorities to Committees and management as it sees fit.

Details of the main Committees of the Board and their activities are contained in the Corporate Governance Report.

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.

## Substantial Shareholders

In addition to the Directors' interests shown in the Remuneration Report, and in accordance with Part 22 of the Companies Act 2006, the Company has been notified that the following shareholders' interests exceeded 3% of the Company's ordinary share capital in issue at the date of this report:

| Shareholder | % |
|---|---|
| George Materna | 31.5 |
| Octopus Investments Limited | 12.5 |
| AXA Framlington | 9.3 |
| Paul Raine | 7.2 |
| Old Mutual Global Investors | 3.9 |
| British Steel Pension Fund | 3.4 |

## Corporate Governance

The Corporate Governance Report is incorporated into this report by reference.

## Corporate Responsibility

The Board recognises its employment, environmental and health and safety responsibilities. It devotes appropriate resources towards monitoring and improving compliance with existing standards.

The Executive Directors have responsibility for these areas at Board level, ensuring that the Group's policies are upheld and providing the necessary resources.

### Bribery
The Group's Board has made a commitment to carry out business fairly, honestly and openly and has also demonstrated a commitment to zero tolerance towards bribery. A copy of our High Level Commitment Statement is available on our website www.matchtechgroupplc.com.

### Environment
The Group remains committed to operating in an environmentally responsible manner, and is accredited to the Environmental Standard ISO 14001:2004. The Directors consider the impact on the environment in making their decisions.

### The Community, Including Charitable and Political Donations
The Group is committed to providing support to the community through a number of charitable activities. During the year the Group made charitable donations of £32,000 (2013: £21,000).

The Directors consider the impact on the community when making their decisions.

The Group made no donations for political purposes either in the UK or overseas during the year.

### Employees
The Board recognises that the Group's employees are vitally important to the continued success of the business. Employees are encouraged to train and develop their careers.

The Group is committed to achieving equal opportunities and to complying with anti-discrimination legislation. It is established Group policy to offer employees and job applicants the opportunity to benefit from fair employment, without regard to their sex, sexual orientation, marital status, race, religion or belief, age or disability.

The Group has continued its policy of informing all employees of matters of concern to them as employees, both in their immediate work situation and in the wider context of the Group's well-being.

Communication with employees is effected through the Board, the Group's management briefings structure, formal and informal meetings and through the Group's information systems.

The Group has a culture that encourages share participation at all levels. At 31 July 2014 approximately 43% of the Company's share capital is held by Directors, senior management and other employees.

During the year the Group operated a Long-Term Incentive Plan (LTIP), Share Incentive Plan (SIP) and a Value Creation Plan (VCP).

The LTIP cascades through the organisation, with approximately 48% of staff eligible to participate, and the SIP is open to all staff.

The Group also has a number of share options yet to be exercised from its Enterprise Management Incentive Scheme (EMI).

### Policy on the Payment of Creditors
The Group's policy is to agree terms and conditions for its business transactions with suppliers and to endeavour to abide by these terms and conditions, subject to the supplier meeting its obligations.

No one supplier arrangement is considered to be essential to the business of the Group.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

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 of the Group and Parent Company and of their profit or loss for that period.

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006.

They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed in these Financial Statements on pages 22 and 23, confirms that, to the best of his knowledge:
- the Strategic Report contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the principal risks and uncertainties that it faces;
- the Group financial Statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group.

# Directors' Report continued

### Health and Safety
The Group is committed to providing for the health, safety and welfare of all its employees and has established an Occupational Health and Safety Management System that complies with OHSAS 18001:2007. The Group also has procedures in place to comply with all legal and contractual obligations relevant to the Group's activities.

### Quality
The Group is ISO 9001:2000 accredited. As one of the UK's leading specialist recruitment agencies, the Group is dedicated to quality and professionalism in the pursuit of achieving customer satisfaction and commercial goals.

In order to ensure that these key objectives are achieved, the Company has, in compliance with ISO 9001:2000, implemented a Quality Management System suitable to the needs, size and complexity of the operation. Commitment to and compliance with this Quality Management System is mandatory for all Group employees.

This quality policy, and the resultant management systems and objectives are under constant review to ensure continual improvements in systems and performances. All interested parties are encouraged to participate in this process.

### Business Continuity
The Group is BS25999 accredited, has a robust business continuity strategy and has built a highly resilient infrastructure. It has a disaster recovery facility where our staff would relocate to in the event of a major disaster.

### Disclosure of Audit Information
The Directors confirm that, as at the date this report was approved, so far as each Director is aware there is no relevant audit information of which the Company's auditor is unaware and that he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Going Concern
The Directors have reviewed forecasts and budgets for the coming year, which have been drawn up with appropriate regard for the current macroeconomic environment and the particular circumstances in which the Group operates. These were prepared with reference to historic and current industry knowledge, taking the future strategy of the Group into account.

As a result, at the time of approving the financial statements, the Directors consider that the Company and the Group have sufficient resources to continue in operational existence for the foreseeable future, and accordingly, that it is appropriate to adopt the going concern basis in the preparation of the financial statements.

As with all business forecasts, the Directors' statement cannot guarantee that the going concern basis will remain appropriate given the inherent uncertainty about future events.

### Auditors
The Board has decided to propose the reappointment of KPMG LLP as auditors and a resolution concerning their reappointment will be proposed at the forthcoming AGM.

### Registered Office
1450 Parkway, Solent Business Park, Whiteley, Fareham, Hampshire, PO15 7AF.

Registered number: 04426322

Approved by the Board and signed on its behalf by:

**Tony Dyer**
Chief Financial Officer
14 October 2014

### Cautionary Statement
Under the Companies Acts 2006, a Company's Directors' Report is required, among other matters, to contain a fair review by the Directors of the Group's business, through a balanced and comprehensive analysis of the development and performance of the business of the Group and the position of the Group at the year end, consistent with the size and complexity of the business.

The Directors' Report set out above, including the Chairman's Statement, the Chief Executive's Review, and the Chief Financial Officer's Report incorporated into it by reference (together with the Directors' Report), has been prepared only for the shareholders of the Company as a whole, and its sole purpose and use is to assist shareholders to exercise their governance rights. In particular, the Directors' Report has not been audited or otherwise independently verified. The Company and its Directors and employees are not responsible for any other purpose or use or to any other person in relation to the Directors' Report.

The Directors' Report contains indications of likely future developments and other forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries, sectors and business segments in which the Group operates. These factors include, but are not limited to, those discussed under Principal Risks and Uncertainties.

# Corporate Governance Report



**Corporate Governance – A Key Priority for the Board**
The maintenance of effective Corporate Governance is a key priority for the Board. Whilst the Group is not subject to the UK Corporate Governance Code (the Code) applicable to companies with a Premium Listing of equity shares in the UK, the Directors recognise the importance of sound Corporate Governance. The Group seeks to comply with the Corporate Governance Guidelines for Smaller Quoted Companies as published by the Quoted Companies Alliance, as far as applicable.

**Board's Management Objectives**

**Entrepreneurial Management**
There is a vision of what the Group is trying to achieve, over what period and an understanding of what is required to achieve this ambition. A dialogue exists between shareholders and the Board, with the aim that the Board understands shareholders' objectives and the shareholders understand the Group's constraints

**Efficient Management**
The mechanisms by which important decisions are taken are transparent. It is clear where the responsibility lies for the management of the Group and for the achievement of key tasks. Procedures are in place to protect significant tangible and intangible assets and these are regularly reviewed and updated

**Effective Management**
The Board has the appropriate composition and skills mix which are regularly reviewed and it has collective responsibility that requires all Directors to be involved in the process of arriving at significant decisions. The Board is provided with regular appropriate management and financial information on which to constructively challenge recommendations made to it

**Ethical Management**
Behaving ethically, both in the Group's decision making and through the actions of our employees, is a must for the Group. Our continued success depends on earning, keeping the trust of and preserving our reputation in the eyes of those we deal with – including clients, contractors, employees, business partners and the broader community

There is a formal schedule of matters reserved for their decision which includes strategy, the approval of financial statements and shareholder circulars, treasury policy, major capital investments (including acquisitions and disposals) and risk management strategy.

**The Board, including Performance Evaluation**
Led by Brian Wilkinson as Executive Chairman, the Board is responsible for the Group's overall direction and management, and for the establishment and maintenance of a framework of delegated authorities and controls which ensure the efficient and effective management of the Group's operations.

To ensure that vested interests should not be able to act in a manner contrary to the common good of all shareholders, at the date of this report the Board has 4 Independent Non-Executive Directors. The Board considers the independence of the Independent Non-Executive Directors annually against the criteria set out in the UK Governance Code with each being determined as independent of management having no business or other relationship that could interfere materially with the exercise of their judgement. The Board is satisfied with the current balance between Executive and Non-Executive Directors, which allows it to exercise objectively in decision making and proper control of the Group's business.

The Board recognises that the composition of the Board needs to be kept under regular review, with proposals coming from the Nominations Committee to the Board for its consideration.

In line with the requirements of the Code, the Group has voluntarily chosen that all Directors will retire at the Annual General Meeting (AGM) and, being eligible, will offer themselves for re-election.

Directors are required to notify the Company Secretary of any potential conflicts of interest when they are appointed to the Board and, following appointment, as new potential conflicts arise. These notifications are then considered and authorised by the Board as appropriate.

The Board has a regular schedule of meetings together with further meetings when required. In addition, Directors meet as members of relevant Committees. There is a formal schedule of matters reserved specifically to the Board for decision, delegating specific responsibilities to Committees.

The Chairman has had no other significant commitments since his appointment in December 2013.

All Directors have access to the advice and services of Tony Dyer, the Chief Financial Officer, and Neil Ayton, the Company Secretary, who are responsible for ensuring that Board procedures and applicable rules and regulations are observed. There is an agreed procedure for Directors to obtain independent professional advice, paid for by the Group.

The Board is committed to ensuring its effectiveness. During the year the Chairman undertook performance assessments with each Director and subsequent to the year end he led a self-assessment review of the Board as a whole. Also subsequent to the year end the Senior Independent Director undertook a performance assessment of the Chairman with input from each of the other Directors.

# Corporate Governance Report continued

The Chairman and the Non-Executive Directors meet without the Executive Directors present at least once a year.

The Board is satisfied with the performance of each individual Board member and the Board as a whole. Where there are areas for improvement the Board has agreed objectives and action plans in place and will continually review progress on these.

### Committees of the Board

The Board has 3 established Committees for Audit, Nominations and Remuneration. The Committees have Terms of Reference which are reviewed at least biannually by the Board, and revised as deemed necessary and appropriate. The Terms of Reference of all 3 Committees were reviewed during the 12 months prior to the date of this report. Copies of the Terms of Reference are available on the Group's website www.matchtechgroupplc.com and on request from the Company Secretary.

Following formal decision making, the Board may, on occasion, delegate authority to a Standing Committee consisting of any 2 Directors to facilitate final sign off for an agreed course of action within strict parameters.

### Audit Committee and Remuneration Committee

The responsibilities and operation of the Audit Committee and Remuneration Committee are described in the Audit Committee's Report and in the Directors' Remuneration Report respectively.

## Nominations Committee Key Responsibilities

**George Materna Chairman** (Non-Executive Deputy Chairman)

**Richard Bradford** (Independent Non-Executive Director)

**Rudi Kindts** (Independent Non-Executive Director)

- Reviewing the structure, size and composition of the Board, and making recommendations to the Board with regard to any changes required.
- Succession planning for Directors and other senior executives.
- Identifying and nominating, for Board approval, candidates to fill Board and senior executive vacancies as and when they arise.
- Reviewing annually the time commitment required of Non-Executive Directors.
- Making recommendations to the Board regarding membership of the Audit and Remuneration Committees in consultation with the Chairman of each Committee.

The Nominations Committee has full power and authority to carry out a formal selection process of candidates, before proposing new appointments to the Board.

The Group has adopted a policy for Directors' and key employees' share dealings which is appropriate for an AIM-quoted Group.

The Directors comply with Rule 21 of the AIM rules relating to Directors' dealings and in addition take all reasonable steps to ensure compliance by the Group's applicable employees.

### Non-Executive Directors

The Non-Executive Directors have letters of appointment stating their annual fee, their re-election at forthcoming AGMs and that their appointment is subject to satisfactory performance. Their appointment may be terminated with a maximum of 6 months' written notice at any time.

Copies of the letters of appointment will be available for inspection prior to and during the AGM, and are also available for inspection at the Group's registered office during normal business hours. The remuneration of the Chairman and the Non-Executive Directors is determined by the Board within the limits set out in the Articles of Association, including reviewing the level of fees paid by comparator companies.

The Chairman and the Non-Executive Directors do not participate in any meeting at which discussions in respect of matters relating to their own position take place.

### Internal Control

The Board is responsible for reviewing and approving the Group's governance framework and ensuring its adequacy and effectiveness. Internal controls, which include financial, operational and compliance and risk management systems, are central to this framework:

- The system of internal financial and operational controls is designed to meet the Group's particular needs and aims, to facilitate effective and efficient operations, to safeguard the Group's assets, ensure proper accounting records are maintained, and ensure that the financial information used within the business and for publication is reliable.
- Such a system of internal control can only be designed to manage, rather than eliminate risk of failure to achieve business objectives, and provide reasonable, but not absolute, assurance against material misstatement and loss.
- The Board confirms that there is a continuing process for identifying, evaluating and managing the risks faced by the Group, with further improvements planned for the current financial year.
- The Audit Committee agrees an annual plan of internal audit activities, including from third parties, and reviews audit findings and subsequent management implementation.
- A separate report on Principal Risks and Uncertainties is in the Principal Risks and Uncertainties section on pages 20 and 21.

The Board's statements and actions emphasise a culture of openness, integrity, competence, fairness and responsibility.

The Board focuses mainly on strategic issues, senior management and financial performance. The Group Executive concentrates on operational performance, operational decision making and the formulation of strategic proposals to the Board.

The Board determines how the Chief Executive Officer operates within a framework of delegated authorities and reserved powers which seek to ensure that certain transactions, significant in terms of their size or type, are undertaken only after Board review.

### Risk Management Policy

The Group has an overall Risk Management Policy in place, which has been communicated to all staff and is continually accessible.

### Corporate Policies
The Board has a range of policies for the Group to comply with which it constantly monitors, including policies on the Bribery Act, Corporate Social Responsibility, Equal Opportunities, Disability, Diversity, Health and Safety, Gifts and Entertainment and the Environment.

### Professional Practices
The Group is a Corporate Member of the Recruitment and Employment Confederation (REC). The Group encourages all recruitment consultants to become members and actively promotes the REC training programme, to ensure that all staff are working to the appropriate guidelines.

The Group endeavours to fully comply with the REC Code of Ethics, The Employment Agencies Act and Conduct Regulations 2003 and the REC Code of Professional Practice. The Group has achieved REC Audited status, which means systems and processes comply with current legislation.

### Financial Reporting
The Board approves a business plan and annual budgets for individual business units and the Group. The financial performance of individual business units is reported regularly.

We report to our shareholders on a half-yearly basis. Forecasts for the Group are updated and reviewed by the Board regularly.

### Independent External Audit
Information is provided in the Audit Committee's Report on pages 30 and 31.

### Relations with Shareholders
The Board regards effective communication with shareholders as crucial. Relations with shareholders are managed principally by the Chief Executive Officer and Chief Financial Officer. Meetings are held regularly throughout the year with institutional investors, fund managers and analysts.

The Chairman, Senior Independent Director and other Non-Executive Directors make themselves available for meetings with major shareholders. This provides shareholders with the opportunity to take up with these individuals any issue they feel unable to raise with the Chief Executive Officer or Chief Financial Officer. The Group's shareholders are invited to attend the AGM at which all Directors are present.

The Non-Executive Directors are also kept informed of the views of shareholders, with the Executive Directors providing updates on investor meetings. Additionally, the Group's broker provides briefings to the Board on shareholder opinions and compiles independent feedback from investor meetings.

The Group's website contains information on current business activities, including the annual and half-year results presentations.

# Audit Committee's Report

I am pleased to present the Audit Committee's annual report on its activities.

## Audit Committee Key Responsibilities

**Ric Piper Chairman 2006 to date** (Senior Independent Non-Executive Director)

**Stephen Burke** (Independent Non-Executive Director)

- Monitoring the integrity of the half-yearly and annual financial statements and formal announcements relating to the Group's financial performance. Starting for the year ended 31 July 2014, this includes advising the Board that the Annual Report taken as a whole is fair, balanced and understandable.
- Reviewing significant financial reporting issues and accounting policies and disclosures in financial reports.
- Reviewing the effectiveness of the Group's internal control procedures and risk management systems.
- Making recommendations to the Board on the appointment or reappointment of the Group's independent external auditors.
- Reviewing the independent auditor's audit strategy and implementation plan and its findings in relation to the Annual Report and Interim Financial Statements.
- Overseeing the Board's relationship with the independent external auditors including their continuing independence and, where appropriate, the selection of new independent external auditors.
- Considering how the Group's internal audit requirements shall be satisfied and making recommendations to the Board.
- Ensuring that an effective whistle-blowing procedure is in place.

Ric Piper, Chairman of the Audit Committee, qualified as a Chartered Accountant in 1977 and is a current member of the Financial Reporting Review Panel (FRRP).

The Board considers he has recent and relevant financial experience.

The Committee met 5 times during the year.

The Executive Directors are routinely invited to Committee meetings.

During the year the Committee met privately with the independent auditor. The Committee Chairman also met privately with the Senior Statutory Auditor (William Smith) outside of the Committee meetings.

### Operation of the Committee

The Committee's Terms of Reference were reviewed and updated in September 2013 to conform to current best practice. No significant changes were deemed necessary. They are available on the Group's website (www.matchtechgroupplc.com), as well as in hard copy format from the Company Secretary.

The Terms of Reference will be next reviewed by September 2015.

The main activities of the Committee during the year were as follows:

- Financial Statements. The Committee reviewed the Interim and Annual Report. Presentations were made by management and the auditor about the key technical and judgemental matters relevant to the financial statements. Significant areas considered by the auditor and the Committee were valuation of accounts receivables, revenue recognition, working capital forecasts and banking covenants together with goodwill valuation and taxation. The first 4 areas are routinely considered by the Board at its monthly meetings and the remaining 2 areas are the subject of specific papers prepared by management as part of the Committee's and the Board's approval of Interim and Annual results.
- The Committee was satisfied that it was appropriate for the Board to approve the Financial Statements and that the Annual Report taken as a whole is fair, balanced and understandable such that it allows shareholders to assess the Group's performance against the Group's strategy and business model.
- Internal financial control systems. The Committee reviewed the recommendations made by the independent auditor and management's responses and actions. The Committee was satisfied that it was appropriate for the Board to make the statements regarding internal controls included in the Corporate Governance Report.
- Internal audit. During the year the Group undertook a number of internal audit reviews, both of financial and operational activities. As part of the Committee's policy, certain specialist internal audit work was undertaken by external organisations.

The Chairman of the Committee reported to the Board on the Committee's activities after each meeting, identifying relevant matters requiring communication to the Board and recommendations on the steps to be taken.

### INDEPENDENT AUDITOR: REAPPOINTMENT AND AUDIT TENDER POLICY

The appointment of the independent external auditor is approved by shareholders annually. The independent auditor's audit of the financial statements is conducted in accordance with International Standards on Auditing, ISA (UK and Ireland) issued by the Auditing Practices Board.

There are no contractual obligations that act to restrict the Committee's choice of external auditor. In November 2013, the Board proposed and shareholders approved the appointment of KPMG LLP as the Company's registered independent public accounting firm for the financial year ending 31 July 2014.

In early 2011 the Board (on the recommendation of the Audit Committee) decided that it was appropriate to put the Group's audit out to competitive tender. In March 2011 the Audit Committee proposed and the Board approved the appointment of KPMG Audit Plc as the Company's registered independent public accounting firm commencing with audit work for the year ending 31 July 2011. Following the wind down of KPMG Audit Plc in 2013, KPMG LLP were appointed as auditors at the AGM in November 2013.

In the context of developing best practice, the Committee has kept under review its recommendations to the Board concerning the Company's Audit Tender policy. This year, having considered the effectiveness and performance of the independent auditor, the Committee has recommended to the Board the reappointment of KPMG LLP as independent auditor of the Company for the next financial year.

### INDEPENDENT AUDITOR: SERVICES, INDEPENDENCE AND FEES

The independent auditor provides the following services:

- A report to the Committee giving an overview of the results, significant contracts and judgements and observations on the control environment.
- An opinion on the truth and fairness of the Group and Company financial statements.
- An internal control report, following its audit, highlighting to management any areas of weakness or concern.

The Committee monitors the cost-effectiveness of audit and non-audit work performed by the independent auditor and also considers the potential impact, if any, of this work on independence. Approval is required prior to the independent auditor commencing any material non-audit work in accordance with a Group policy approved by the Committee. Certain work, such as providing bookkeeping services, is prohibited.

The Committee regularly reviews all fees for non-audit work paid to the independent auditor. Details of these fees can be found in Note 3 to the Financial Statements. The Committee concluded that the level of non-audit fees, which represent 38% of the audit fees for the Group, did not have a negative impact on KPMG's independence.

Further, the Committee seeks positive evidence of the independence of the independent auditor through its challenge to management, both in written reports and at Committee meetings.

The Committee also regulates the appointment of former employees of the independent auditor to positions in the Group. The independent external auditor also operates procedures designed to safeguard their objectivity and independence. These include the periodic rotation of the Senior Statutory Partner (due for rotation in 2015), use of independent concurring partners, use of a technical review panel (where appropriate) and annual independence confirmations by all staff.

The independent external auditor reports to the Committee on matters including independence and non-audit work on an annual basis.

### Evaluation of the Committee

In 2012 an independent evaluation of the Committee was undertaken by the Group's auditors who reported to the Chairman of the Board and subsequently issued their report to the whole Board. The Committee has implemented the recommendation to give greater focus to internal audit, including more involvement by the Group Executive.

The Board and the Audit Committee continue to work on implementing the one of the recommendations of the report for additional Members and the induction of new Members.

### Approval

This report was approved by the Committee, on behalf of the Board, on the date shown below and signed on its behalf by:

**Ric Piper**
Chairman of the Audit Committee
14 October 2014

# Remuneration Committee's Report

The Group has a Remuneration Committee which is responsible, on behalf of the Board, for developing remuneration policy.

As such, the Auditor is not required to and has not, except where indicated, audited the information included in the Remuneration Committee Report. The audited information meets the requirements of the changes to the AIM Rule 19, effective February 2010.

The Company's statement on remuneration policy is set out together with details of the remuneration of each Director.

## Remuneration Committee Key Responsibilities

**Stephen Burke Chairman** (Independent Non-Executive Director)
**Ric Piper** (Independent Non-Executive Director)
**Rudi Kindts** (Independent Non-Executive Director)

- Determining and agreeing with the Board the remuneration policy for the Chairman of the Board, the Executive Directors and other senior management.
- Approving the design of, and determining targets for, an annual performance-related pay scheme for the Executive Directors and senior executives.
- Reviewing the design of share incentive plans for approval by the Board and shareholders, and determining the annual award policy to Executive Directors and senior executives under existing plans.
- Within the terms of the agreed policy, determining the remainder of the remuneration packages (principally comprising salary and pension) for each Executive Director and senior executive.
- Reviewing and noting the remuneration trends across the Group.

Stephen Burke has been Chairman of the Remuneration Committee since 2006, Ric Piper and Rudi Kindts have been members since 2006 and 2012 respectively.

The Remuneration Committee meets not less than twice a year. The Chairman of the Board attends the meetings as required, except when his own remuneration is under consideration.

The purpose of the Remuneration Committee is to review, on behalf of the Board, the remuneration policy for the Executive Chairman, other Executive Directors and other senior management, and to determine the level of remuneration, incentives and other benefits, compensation payments and the terms of employment of the Executive Directors and other senior executives. It seeks to provide a remuneration package that aligns the interests of Executive Directors with that of the shareholders.

It receives advice from independent remuneration consultants and makes comparisons with similar organisations. In 2014 advice was received from PricewaterhouseCoopers LLP.

The Committee has continued to review the remuneration of the Executive Directors with regard to the need to maintain a balance between the constituent elements of salary, incentives and other benefits.

No Directors, other than the members of the Remuneration Committee, provided material advice to the Committee on Directors' remuneration.

During the year and since the year end the Committee reviewed the way in which it operates and has implemented a number of changes which will contribute to a higher level of effectiveness.

### Remuneration Policy and Strategy

The objectives of the Group's remuneration policy are to attract, retain and incentivise management with the appropriate professional, managerial and technological expertise to realise the Group's business objectives, and align their interests with those of shareholders. The committee sets targets and measures that reflect the Group's strategy (as set out on page 9) which seek to ensure that the objectives of the business, individuals and shareholders are aligned.

The Group strives to link payment to performance and thereby create a performance culture.

The Executive Directors and senior management are rewarded through a blend of annual profit based bonuses, participation in the rolling Long-Term Incentive Plan, targeting 3 year compound Earnings Per Share growth and since 2011, have been participants in a Value Creation Plan with a 5 year performance period under which share awards are made based on annual compounded total shareholder returns.

The Committee believes that this combination of incentives supports both the near and longer term goals of the business and Group strategy and aligns the participants with the creation of enhances shareholder value.

It is the Group's policy that all Executive Directors' service contracts contain a 6 month notice period.

The Non-Executive Directors have letters of appointment stating their annual fee, and that their appointment is subject to satisfactory performance and their re-election at forthcoming Annual General Meetings (AGMs). Their appointment may be terminated within a maximum of 6 months' written notice at any time.

The remuneration of the Non-Executive Directors is determined by the Board. The Non-Executive Directors do not participate in any of the bonus or share option schemes.

The remuneration agreed by the Committee for the Executive Directors is outlined in the following sections.

### Base Salary and Benefits

The Committee establishes salaries and benefits by reference to those prevailing in the employment market generally for Executive Directors of companies of comparable status and market value, taking into account the range of incentives described elsewhere in this report, including a performance-based commission and performance bonus. Reviews of such base salary and benefits are conducted annually by the Committee.

Following its review of the annual performance related pay scheme for the Executive Directors and senior management, the Committee has determined that the two annual bonus schemes referred to below will be replaced with one target based scheme with effect from the beginning of the 2015 financial year.

The new scheme's structure is based on paying out a percentage of the individuals' annual basic salary on a sliding scale between two pre-set profit targets. The profit target for the Executive Directors will be the Group's audited annual profit before amortisation of acquired intangibles and taxation. This was £12.6m in 2014 financial year.

Under the new scheme, for the 2015 financial year, on achievement of the lower target (after accounting for the cost of annual bonuses including employer's national insurance) the Executive Directors will receive 40% of their basic pay as an annual bonus. The percentage of basic pay awarded increases to a maximum of 120% (accounted for on the same basis as the lower target). The lower and maximum targets will be reported in the 2015 Remuneration Committee's Report.

The Committee believes that the new scheme improves clarity, provides a clear relationship with the Group's annual plan and will be more effective in rewarding relative performance.

### Profit Bonus

The performance-based commission for the Executive Directors is based upon a fixed percentage of pre-tax profits generated by the Group in the year.

| Director | Executive Chairman | CEO | CFO | Matchtech MD |
|---|---|---|---|---|
| Profit bonus percentage | 0.50% | 0.50% | 0.40% | 0.40% |

### Annual Profit Growth Bonus

The annual profit growth-based bonus is based upon the Group's pre-tax profit performance in the year, compared with the baseline pre-tax profit from the previous year. This bonus is paid at the end of the year.

The following bonus rates are paid on the increase in profits for the year. The Remuneration Committee may vary the rates during the year to take account of any acquisitions or disposals.

| Director | Executive Chairman | CEO | CFO | Matchtech MD |
|---|---|---|---|---|
| 0%–5% | 1.00% | 1.00% | 0.80% | 0.80% |
| 5%–10% | 2.00% | 2.00% | 1.60% | 1.60% |
| 10%–15% | 3.00% | 3.00% | 2.40% | 2.40% |
| 15%–20% | 4.00% | 4.00% | 3.20% | 3.20% |
| 20%–25% | 5.00% | 5.00% | 4.00% | 4.00% |
| 25%–30% | 6.00% | 6.00% | 4.80% | 4.80% |
| 30%–35% | 7.00% | 7.00% | 5.60% | 5.60% |
| 35%+ | 8.00% | 8.00% | 6.40% | 6.40% |

The baseline profit for the year was £9.9m and was adjusted up to £10.3m following the acquisition of Application Services Limited trading as Provanis on 6 September 2013.

### Pension

The Group contributes 10% of Adrian Gunn's, Tony Dyer's and Keith Lewis's basic salaries into a Group personal pension plan. Adrian and Tony have both exercised their right to apply for Lifetime Limit and therefore are subsequently paid the equivalent amount in lieu of pension contribution.

### Value Creation Plan (VCP)

As announced on 21 November 2011, the Group has implemented and made awards to Directors under a VCP.

The VCP was approved by the shareholders in the Annual General Meeting on 18 November 2011.

The following Directors have been conditionally granted an award of units under the VCP:

| Director | Executive Chairman | CEO | CFO | Matchtech MD |
|---|---|---|---|---|
| Number of VCP units | 144,000 | 266,000 | 145,000 | 145,000 |
| Percentage of total number of VCP units allocated and to be allocated | 14.4% | 26.6% | 14.5% | 14.5% |

No payment has been made for the grant of these awards and the VCP units have no value at grant.

The VCP has a 5 year performance period (ending after the preliminary announcement of the Group's results in 2016) and the VCP units entitle the Directors to share in 7.5% of the total value created for shareholders in excess of an annual hurdle at a series of measurement dates.

The level of value created for shareholders will be determined by reference to the appreciation in the Company's share price, the amount of dividends paid and share buy backs. The shareholder value created at each measurement date will be calculated using the average share price over the 30 day period prior to the relevant measurement date, the measurement date being 30 days after the preliminary announcement of the Group's results.

The annual hurdle will be the higher of:

- the actual share price at the previous measurement date; and
- 20% growth over the threshold price from the previous measurement date.

The initial price was 218 pence per share, being the average share price for the 30 day period following the preliminary announcement of the Company's 2011 final results.

The first threshold price, for the year ended 31 July 2012 was 261.6 pence (218 pence plus 20%) which was not exceeded, with the measurement share price being 254 pence. The second threshold price, for the year ended 31 July 2013, was 313.9 pence (261.6 pence plus 20%). This was exceeded with the measurement share price being 568 pence. The third threshold price, for the year ended 31 July 2014, was 568 pence.

At each measurement date each Director will receive an entitlement to shares (in the form of a nil-cost option) with a value equivalent to each Director's relevant proportion of the VCP pool created in respect of that measurement date. Any share entitlement will not become exercisable until the end of the 5th year of the VCP when 50% of the shares are exercisable, with the balance exercisable 1 year later.

# Remuneration Committee's Report continued

The share entitlement granted in the year ended 31 July 2014 is as follows:

| Director | Executive Chairman | CEO | CFO | Matchtech MD |
|---|---|---|---|---|
| 2013 share entitlement | – | 241,717 | 131,763 | 131,763 |

### Share Options Conditional on Performance

During the year the Group operated a Long-Term Incentive Plan (LTIP) and a Deferred Share Bonus Plan (DSBP) for Executive Directors and key staff.

### Long-Term Incentive Plan

The plc Executive Directors receive an annual grant of zero-priced share options. The grant for the year, made on 24 January 2014, (2014 LTIP) was 34,896 for the Executive Chairman, 52,632 shares for the Chief Executive Officer and 34,450 shares each for the Chief Financial Officer and Matchtech Managing Director.

This award will be capable of release subject to the Director remaining employed until the expiry of the holding period date set out, and the satisfaction of the following performance targets.

### Earnings Per Share (EPS) Growth

The number of shares which shall be capable of release at the end of the holding period for each unlapsed grant shall be in accordance with the following table, subject to the Total Shareholder Return (TSR) Underpin being satisfied in the option granted in years 2011, 2012 and 2013:

| Grant | Grant date | Measurement period | Baseline EPS |
|---|---|---|---|
| 2011 | 4 February 2011 | FY 2011–FY 2013 | 25.96 pence |
| 2012 | 31 January 2012 | FY 2012–FY 2014 | 19.74 pence |
| 2013 | 31 January 2013 | FY 2013–FY 2015 | 23.49 pence |
| 2014 | 24 January 2014 | FY 2014–FY 2016 | 30.70 pence |

| | Minimum | | Between minimum and maximum | | Maximum | | Vesting |
|---|---|---|---|---|---|---|---|
| Grant | Target | Vesting | Target | Vesting | Target | Vesting | status |
| 2011 | 37.46 pence | 25% | 37.46 pence–48.31 pence | straight-line | >48.31 pence | 100% | Deemed unlikely |
| 2012 | 10% +RPI pa | 33% | Between 10% and 20% +RPI pa | straight-line | >20% +RPI pa | 100% | |
| 2013 | 10% +RPI pa | 33% | Between 10% and 20% +RPI pa | straight-line | >20% +RPI pa | 100% | |
| 2014 | 7% + RPI pa | 33% | Between 7% and 14% +RPI pa | straight-line | >14% +RPI pa | 100% | |

### Total Shareholder Return (TSR)

The TSR Underpin will be satisfied should the return on a Group's share over the period from the date of grant to the third anniversary of the date of grant, exceed the median return of a comparator group of listed recruitment companies. The composition of the comparator group is decided independently by the external remuneration advisors, PricewaterhouseCoopers LLP.

TSR performance can be summarised as follows:

| Grant | Upper quartile | Median | Lower quartile | Matchtech | Ranking | Vesting status |
|---|---|---|---|---|---|---|
| 2011 | – | – | – | – | N/A | Deemed unlikely |
| 2012 | 122% | 86.6% | 20.4% | 210.7% | Above Median | |
| 2013 | 100.6% | 60.9% | 11.9% | 153.5% | Above Median | |

The 2014 grant was not subject to a TSR performance underpin.

### Deferred Share Bonus Plan

The Group did not award any share options under the Deferred Share Bonus Plan during the year.

### Share Incentive Plan

During the year the Group operated a Share Incentive Plan (SIP) for Executive Directors and all staff called 'Match'. Under the scheme, staff are entitled to buy shares in Matchtech Group plc out of pre-tax salary. They can invest up to a maximum of £1,800 per annum (2013:£1,500 per annum), which will be used to purchase Matchtech Group shares (Invest shares).

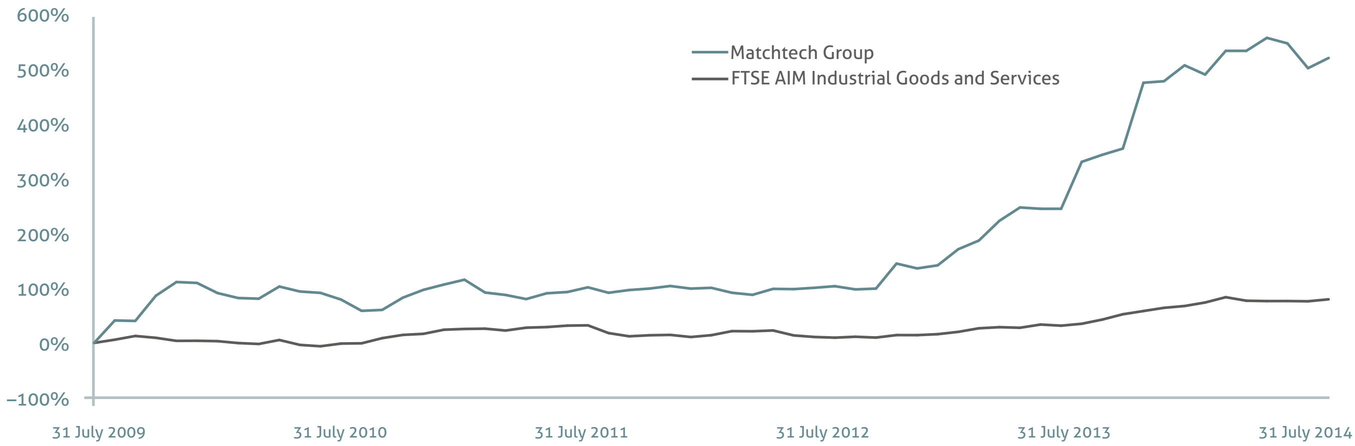
The Group will award 1 free share for every share that is purchased (Match shares). Staff will receive Match shares at the end of a 3 year holding period, subject to remaining employed within the Group and the Invest shares remaining in the plan throughout the holding period.

At 31 July 2014, the following shares were held in the scheme by the Executive Directors:

| Director | Shares purchased under SIP | Shares awarded under matching element of SIP |
|---|---|---|
| Brian Wilkinson | 251 | 247 |
| Adrian Gunn | 4,116 | 2,450 |
| Tony Dyer | 3,369 | 2,251 |
| Keith Lewis | 7,100 | 4,844 |
| **Total** | **14,836** | **9,792** |

### Total Shareholder Return

The graph below illustrates the TSR of the Group for period 31 July 2009 to 31 July 2014, for both the Group and the FTSE AIM Industrial Goods and Services index, which is considered the most appropriate comparator index, as it is the index in which the Group appears and is also used for comparing pay and benefit levels.



# Remuneration Committee's Report continued

### Directors' Remuneration

The table below summarises all Directors' emoluments and pension contributions for the current and the prior year for comparison.

| Director | Salaries and fees £'000 | Pension £'000 | Benefits £'000 | Profit bonus £'000 | Growth bonus £'000 | **2014 Total £'000** | 2013 Total £'000 |
|---|---|---|---|---|---|---|---|
| Brian Wilkinson[1] | 167 | 17 | 3 | 42 | 40 | **269** | – |
| George Materna | 64 | – | 2 | – | – | **66** | 85 |
| Adrian Gunn | 181 | 34 | 13 | 63 | 61 | **352** | 328 |
| Tony Dyer | 136 | 39 | 16 | 50 | 48 | **289** | 266 |
| Keith Lewis | 138 | 38 | 10 | 50 | 48 | **284** | 219 |
| Ric Piper | 52 | – | – | – | – | **52** | 47 |
| Stephen Burke | 48 | – | – | – | – | **48** | 47 |
| Richard Bradford | 47 | – | – | – | – | **47** | 42 |
| Rudi Kindts | 43 | – | – | – | – | **43** | 42 |
| Andrew White[2] | 65 | – | 1 | – | – | **66** | 49 |
| **Total** | **941** | **128** | **45** | **205** | **197** | **1,516** | **1,125** |

1 Appointed 2 December 2013.
2 Resigned 16 June 2014.

### Directors' Interests in Shares and Share Options

The Directors' interests in the share capital of the Group at 31 July 2014 are shown below. There are no changes to this information as at the date of this report.

| Director | Ordinary shares at 31 July 2013 | Change in year | **Ordinary shares at 31 July 2014** | % of share capital |
|---|---|---|---|---|
| George Materna | 7,877,405 | (40,000) | **7,837,405** | 31.4% |
| Andrew White[1] | 1,093,032 | (482,400) | **n/a** | n/a |
| Adrian Gunn | 429,902 | 1,397 | **431,299** | 1.7% |
| Tony Dyer | 308,995 | 965 | **309,960** | 1.2% |
| Keith Lewis | 283,153 | 537 | **283,690** | 1.1% |
| Brian Wilkinson | – | 10,000 | **10,000** | <0.1% |

1 Andrew White held 610,632 shares at the date of his resignation.

### Share Options and Deferred Share Bonus Options

| Director | As at 31 July 2013 | Options granted | Options exercised | Options lapsed | **As at 31 July 2014** | Date at which exercisable | Expiry date |
|---|---|---|---|---|---|---|---|
| **Brian Wilkinson** | | | | | | | |
| 2014 LTIP – 24 January 2014 | – | 34,896 | – | – | **34,896** | 24 January 2017 | 24 January 2024 |
| **Adrian Gunn** | | | | | | | |
| 2010 DSBP – 18 January 2010 | 12,500 | – | – | – | **12,500** | 18 January 2012 | 4 February 2021 |
| 2012 LTIP – 31 January 2012 | 25,000 | – | – | – | **25,000** | 31 January 2015 | 31 January 2022 |
| 2013 LTIP – 31 January 2013 | 25,000 | – | – | – | **25,000** | 31 January 2016 | 31 January 2023 |
| 2013 DSBP – 31 January 2013 | 12,500 | – | – | (4,375) | **8,125** | 24 January 2015 | 31 January 2023 |
| 2013 DSBP – 31 January 2013 | 12,500 | – | – | (4,375) | **8,125** | 24 January 2016 | 31 January 2023 |
| 2014 LTIP – 24 January 2014 | – | 52,632 | – | – | **52,632** | 24 January 2017 | 24 January 2024 |
| **Tony Dyer** | | | | | | | |
| 2010 DSBP – 18 January 2010 | 8,000 | – | (8,000) | – | **–** | 18 January 2012 | 4 February 2021 |
| 2012 LTIP – 31 January 2012 | 16,000 | – | – | – | **16,000** | 31 January 2015 | 31 January 2022 |
| 2013 LTIP – 31 January 2013 | 16,000 | – | – | – | **16,000** | 31 January 2016 | 31 January 2023 |
| 2013 DSBP – 31 January 2013 | 8,000 | – | – | (2,800) | **5,200** | 24 January 2015 | 31 January 2023 |
| 2013 DSBP – 31 January 2013 | 8,000 | – | – | (2,800) | **5,200** | 24 January 2016 | 31 January 2023 |
| 2014 LTIP – 24 January 2014 | – | 34,450 | – | – | **34,450** | 24 January 2017 | 24 January 2024 |
| **Keith Lewis** | | | | | | | |
| 2010 DSBP – 18 January 2010 | 5,000 | – | (5,000) | – | **–** | 18 January 2012 | 4 February 2021 |
| 2012 LTIP – 31 January 2012 | 10,000 | – | – | – | **10,000** | 31 January 2015 | 31 January 2022 |
| 2013 LTIP – 31 January 2013 | 16,000 | – | – | – | **16,000** | 31 January 2016 | 31 January 2023 |
| 2013 DSBP – 31 January 2013 | 8,000 | – | – | (2,800) | **5,200** | 24 January 2015 | 31 January 2023 |
| 2013 DSBP – 31 January 2013 | 8,000 | – | – | (2,800) | **5,200** | 24 January 2016 | 31 January 2023 |
| 2014 LTIP – 24 January 2014 | – | 34,450 | – | – | **34,450** | 24 January 2017 | 24 January 2024 |

The IFRS 2 charge in the year for LTIPs, deferred bonus option and the VCP relating to the Executive Directors was £37,000 (2013: £nil) in respect of Brian Wilkinson, £92,000 (2013: £31,000) in respect of Adrian Gunn, £66,000 (2013: £20,000) in respect of Tony Dyer and £58,000 (2013: £17,000) in respect of Keith Lewis.

No Director had any other interest in the share capital of the Group or its subsidiaries, or exercised any share options during the year, other than as already disclosed.

On 31 July 2014, the closing market price of Matchtech Group plc ordinary shares was 582.5 pence. The highest and lowest prices of these shares during the year were 635.0 pence on 10 April 2014 and 416.5 pence on 5 September 2013 respectively, based on the London Stock Exchange Daily Official List.

### Approval

This report was approved by the Committee, on behalf of the Board, on the date shown below and signed on its behalf by:

**Stephen Burke**
Chairman of the Remuneration Committee
14 October 2014

# Financial Statements

# INDEPENDENT AUDITOR'S REPORT
## TO THE MEMBERS OF MATCHTECH GROUP PLC

We have audited the financial statements of Matchtech Group plc for the year ended 31 July 2014 set out on pages 41 to 63. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU 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 and, in respect of the separate opinion in relation to the Directors' Remuneration Report and reporting on corporate governance, on terms that have been agreed. 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, in respect of the separate opinion in relation to the Directors' Remuneration Report and reporting on corporate governance, those matters that we have agreed to state to them in our 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 25, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

### Opinion on Financial Statements
In our opinion:
- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 July 2014 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 EU;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on Other Matters Prescribed by the Companies Act 2006
In our opinion, 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.

### Matters on which we are Required to Report by Exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 and under the terms of our engagement we are required 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 and the part of the Directors' Remuneration Report which we were engaged to audit 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.

W. Smith

**William Smith (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
Chartered Accountants
Dukes Keep, Marsh Lane
Southampton, Hampshire
SO14 3EX
14 October 2014

# Consolidated Income Statement
## for the year ended 31 July 2014

| | Note | 2014 £'000 | Restated 2013 £'000 |
|---|---|---|---|
| Revenue | | **451,591** | 408,926 |
| Cost of sales | | **(406,609)** | (370,554) |
| **GROSS PROFIT** | 2 | **44,982** | 38,372 |
| Administrative expenses | | **(32,024)** | (27,874) |
| **PROFIT FROM OPERATIONS** | 3 | **12,958** | 10,498 |
| Profit from operations before amortisation of acquired intangibles | | **13,621** | 10,698 |
| Amortisation of acquired intangibles | | **(663)** | (200) |
| Finance income | | **–** | 180 |
| Finance cost | 5 | **(1,015)** | (782) |
| **PROFIT BEFORE TAX** | | **11,943** | 9,896 |
| Income tax expense | 8 | **(2,821)** | (2,361) |
| **PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | **9,122** | 7,535 |

### EARNINGS PER ORDINARY SHARE

| | Note | 2014 pence | 2013 pence |
|---|---|---|---|
| Basic | 9 | **37.0** | 32.0 |
| Diluted | 9 | **35.0** | 30.7 |

# Statement of Comprehensive Income
## for the year ended 31 July 2014

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Profit for the year | **9,122** | 7,535 |
| **OTHER COMPREHENSIVE INCOME** | | |
| Exchange differences on translating foreign operations | **120** | (95) |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR** | **120** | (95) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | **9,242** | 7,440 |

# Statement of Changes in Equity
## for the year ended 31 July 2014

### A) Group

| | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Share-based payment reserve £'000 | Translation of foreign operations £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **At 1 August 2012** | **234** | **3,128** | **224** | **885** | **64** | **23,113** | **27,648** |
| Profit for the year | – | – | – | – | – | 7,535 | 7,535 |
| Other comprehensive income | – | – | – | – | (95) | – | (95) |
| Total comprehensive income | – | – | – | – | (95) | 7,535 | 7,440 |
| Dividends paid in the year | – | – | – | – | – | (3,704) | (3,704) |
| Deferred tax movement re share options | – | – | – | – | – | 223 | 223 |
| IFRS 2 charge | – | – | – | 610 | – | – | 610 |
| IFRS 2 reserves transfer | – | – | – | (401) | – | 401 | – |
| Shares issued | 2 | 103 | – | – | – | – | 105 |
| Transactions with owners | 2 | 103 | – | 209 | – | (3,080) | (2,766) |
| **At 31 July 2013** | **236** | **3,231** | **224** | **1,094** | **(31)** | **27,568** | **32,322** |
| **At 1 August 2013** | **236** | **3,231** | **224** | **1,094** | **(31)** | **27,568** | **32,322** |
| Profit for the year | – | – | – | – | – | 9,122 | 9,122 |
| Other comprehensive income | – | – | – | – | 120 | – | 120 |
| Total comprehensive income | – | – | – | – | 120 | 9,122 | 9,242 |
| Dividends paid in the year | – | – | – | – | – | (4,516) | (4,516) |
| Deferred tax movement re share options | – | – | – | – | – | 109 | 109 |
| IFRS 2 charge | – | – | – | 1,335 | – | – | 1,335 |
| IFRS 2 reserves transfer | – | – | – | (808) | – | 808 | – |
| Shares issued | 14 | 4,157 | – | – | – | – | 4,171 |
| Transactions with owners | 14 | 4,157 | – | 527 | – | (3,599) | 1,099 |
| **At 31 July 2014** | **250** | **7,388** | **224** | **1,621** | **89** | **33,091** | **42,663** |

### B) Company

| | Share capital £'000 | Share premium £'000 | Share-based payment reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|
| **At 1 August 2012** | **234** | **3,128** | **885** | **934** | **5,181** |
| Profit and total comprehensive income for the year | – | – | – | 4,140 | 4,140 |
| Dividends paid in the year | – | – | – | (3,704) | (3,704) |
| IFRS 2 charge | – | – | 610 | – | 610 |
| IFRS 2 reserves transfer | – | – | (401) | 401 | – |
| Shares issued | 2 | 103 | – | – | 105 |
| Transactions with owners | 2 | 103 | 209 | (3,303) | (2,989) |
| **At 31 July 2013** | **236** | **3,231** | **1,094** | **1,771** | **6,332** |
| **At 1 August 2013** | **236** | **3,231** | **1,094** | **1,771** | **6,332** |
| Profit and total comprehensive income for the year | – | – | – | 3,345 | 3,345 |
| Dividends paid in the year | – | – | – | (4,516) | (4,516) |
| IFRS 2 charge | – | – | 1,335 | – | 1,335 |
| IFRS 2 reserves transfer | – | – | (808) | 808 | – |
| Shares issued | 14 | 4,157 | – | – | 4,171 |
| Transactions with owners | 14 | 4,157 | 527 | (3,708) | 990 |
| **At 31 July 2014** | **250** | **7,388** | **1,621** | **1,408** | **10,667** |

# Statements of Financial Position
## for the year ended 31 July 2014

| | Note | Group 2014 £'000 | Group 2013 £'000 | Company 2014 £'000 | Company 2013 £'000 |
|---|---|---|---|---|---|
| **NON-CURRENT ASSETS** | | | | | |
| Intangible assets | 11 | **3,704** | 635 | **–** | – |
| Property, plant and equipment | 12 | **1,328** | 1,744 | **–** | – |
| Investments | 13 | **–** | – | **3,403** | 2,068 |
| Deferred tax asset | 14 | **388** | 533 | **–** | – |
| **Total Non-Current Assets** | | **5,420** | 2,912 | **3,403** | 2,068 |
| **CURRENT ASSETS** | | | | | |
| Trade and other receivables | 15 | **72,248** | 69,210 | **9,414** | 4,913 |
| Cash and cash equivalents | | **569** | 857 | **39** | 39 |
| **Total Current Assets** | | **72,817** | 70,067 | **9,453** | 4,952 |
| **TOTAL ASSETS** | | **78,237** | 72,979 | **12,856** | 7,020 |
| **NON-CURRENT LIABILITIES** | | | | | |
| Provisions | 16 | **(278)** | (278) | **–** | – |
| **Total Non-Current Liabilities** | | **(278)** | (278) | **–** | – |
| **CURRENT LIABILITIES** | | | | | |
| Trade and other payables | 17 | **(30,112)** | (27,800) | **(2,189)** | (688) |
| Current tax liability | | **(1,506)** | (1,229) | **–** | – |
| Bank loans and overdrafts | 22 | **(3,678)** | (11,350) | **–** | – |
| **Total Current Liabilities** | | **(35,296)** | (40,379) | **(2,189)** | (688) |
| **TOTAL LIABILITIES** | | **(35,574)** | (40,657) | **(2,189)** | (688) |
| **NET ASSETS** | | **42,663** | 32,322 | **10,667** | 6,332 |
| **EQUITY** | | | | | |
| Called-up equity share capital | 20 | **250** | 236 | **250** | 236 |
| Share premium account | | **7,388** | 3,231 | **7,388** | 3,231 |
| Merger reserve | | **224** | 224 | **–** | – |
| Share-based payment reserve | | **1,621** | 1,094 | **1,621** | 1,094 |
| Translation of foreign operations | | **89** | (31) | **–** | – |
| Retained earnings | | **33,091** | 27,568 | **1,408** | 1,771 |
| **TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | **42,663** | 32,322 | **10,667** | 6,332 |

These financial statements were approved by the Board of Directors on 14 October 2014, and signed on their behalf by:

**Tony Dyer**
Chief Financial Officer

# Consolidated Cash Flow Statement
## for the year ended 31 July 2014



| | Group | | Company | |
|---|---|---|---|---|
| | **2014 £'000** | 2013 £'000 | **2014 £'000** | 2013 £'000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit after taxation | **9,122** | 7,535 | **3,345** | 4,140 |
| Adjustments for: | | | | |
| Depreciation and amortisation | **1,385** | 816 | **–** | |
| Loss/(profit) on disposal of property, plant and equipment | **18** | (4) | **–** | – |
| Interest income | **–** | (180) | **–** | – |
| Interest expense | **1,015** | 782 | **–** | – |
| Taxation expense recognised in profit and loss | **2,821** | 2,361 | **–** | – |
| Increase in trade and other receivables | **(1,896)** | (6,574) | **(4,501)** | (1,337) |
| Increase in trade and other payables | **1,906** | 5,975 | **1,501** | 688 |
| Unrealised foreign exchange gains | **–** | 178 | **–** | – |
| Share-based payment charge | **1,335** | 610 | **–** | – |
| Investment income | **–** | – | **(4,500)** | (3,704) |
| Cash generated from operations | **15,706** | 11,499 | **(4,155)** | (213) |
| Interest paid | **(642)** | (732) | **–** | – |
| Income taxes paid | **(2,809)** | (2,296) | **–** | – |
| **NET CASH FROM OPERATING ACTIVITIES** | **12,255** | 8,471 | **(4,155)** | (213) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Purchase of plant and equipment | **(293)** | (484) | **–** | – |
| Purchase of intangible assets | **(10)** | (418) | **–** | – |
| Proceeds from the sale of plant and equipment | **19** | 41 | **–** | – |
| Interest received | **–** | 2 | **–** | – |
| Dividend received | **–** | – | **4,500** | 3,704 |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(284)** | (859) | **4,500** | 3,704 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from issue of share capital | **4,171** | 105 | **4,171** | 105 |
| Acquisitions net of cash received | **(4,170)** | – | **–** | – |
| Dividends paid | **(4,516)** | (3,704) | **(4,516)** | (3,704) |
| **NET CASH USED IN FINANCING** | **(4,515)** | (3,599) | **(345)** | (3,599) |
| Effects of exchange rates on cash and cash equivalents | **20** | 18 | **–** | – |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | **7,476** | 4,031 | **–** | (108) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | **(10,585)** | (14,616) | **39** | 147 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **(3,109)** | (10,585) | **39** | 39 |
| **CASH AND CASH EQUIVALENTS** | | | | |
| Cash | **569** | 857 | **39** | 39 |
| Bank overdrafts | **(332)** | (67) | **–** | – |
| Working capital facility used | **(3,346)** | (11,375) | **–** | – |
| **CASH AND CASH EQUIVALENTS IN CASH FLOW STATEMENTS** | **(3,109)** | (10,585) | **39** | 39 |

## 1 The Group and Company significant accounting policies

**i The business and address of the Group**

Matchtech Group plc is a human capital resources business dealing with contract and permanent recruitment in the Private and Public Sectors. The Company is incorporated in the United Kingdom. The Group's address is: Matchtech Group plc, 1450 Parkway, Whiteley, Fareham PO15 7AF.

**ii Basis of preparation of the financial statements**

The financial statements have been prepared in accordance with applicable International Financial Reporting Standards as adopted by the European Union (EU) and which are effective at 31 July 2014.

These financial statements have been prepared under the historical cost convention. The accounting policies have been applied consistently throughout both the Group and the Company for the purposes of preparation of these financial statements. A summary of the principal accounting policies of the Group are set out below.

**iii Going concern**

The Directors have reviewed forecasts and budgets for the coming year, which have been drawn up with appropriate regard for the current macroeconomic environment and the particular circumstances in which the Group operates. These were prepared with reference to historic and current industry knowledge, taking future strategy of the Group into account. As a result, at the time of approving the financial statements, the Directors consider that the Company and the Group have sufficient resources to continue in operational existence for the foreseeable future, and accordingly, that it is appropriate to adopt the going concern basis in the preparation of the financial statements. As with all business forecasts, the Directors cannot guarantee that the going concern basis will remain appropriate given the inherent uncertainty about future events.

**iv New standards and interpretations**

There are no new standards and amendments to existing standards applicable for the period ending 31 July 2014.

*New standards in issue, not yet effective*

| Standard | | Effective date (Annual periods beginning on or after) |
|---|---|---|
| IAS 27 | Separate Financial Statements | 1 January 2014 |
| IAS 28 | Associates and Joint Ventures | 1 January 2014 |
| IFRS 10 | Consolidated Financial Statements | 1 January 2014 |
| IFRS 11 | Joint Arrangements | 1 January 2014 |
| IFRS 12 | Disclosure of Interests in Other Entities | 1 January 2014 |
| IFRS improvements | Various | Various |

Based on the Group's current business model and accounting policies, the Directors do not expect material impacts on the figures in the Group's financial statements when the interpretations become effective.

The Group does not expect to apply any of these pronouncements early.

**v Basis of consolidation**

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to the Statement of Financial Position date. Subsidiaries are entities over which the Group has power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the Group Statement of Financial Position at their fair values, which are also used as the basis for subsequent measurement in accordance with Group accounting policies.

Transactions between Group companies are eliminated on consolidation.

**vi Revenue**

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for services provided, excluding VAT and trade discounts. Revenue on temporary placements is recognised upon receipt of a client approved timesheet or equivalent. Revenue from permanent placements, which is based on a percentage of the candidate's remuneration package, is recognised when candidates commence employment, at which point it is probable that the economic benefits associated with the transaction will be transferred. Fees for the provision of engineering services are recognised on completion of work performed in accordance with customer contracts. Other fees are recognised on confirmation from the client committing to the agreement.

**vii Property, plant and equipment**

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment.

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset. Depreciation is charged per annum as follows:

| | | |
|---|---|---|
| Motor vehicles | 25.0% | Reducing balance |
| Computer equipment | 25.0% | Straight-line |
| Office equipment | 12.5% | Straight-line |
| Leasehold improvements | Over the period of the lease term | |

Residual value estimates are updated as required, but at least annually, whether or not the asset is revalued.

**viii Intangible assets**

*Goodwill*

Goodwill arises on the acquisition of subsidiaries and represents the excess of the fair value of the consideration given for a business over the Company's interest in the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill is stated at cost less accumulated impairment.

Goodwill is allocated to cash-generating units and is not amortised, but is tested at least annually for impairment. For the purpose of impairment testing, goodwill acquired in a business acquisition is allocated to each of the cash generating units (CGUs), or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

*Software licences*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised using the straight-line method to allocate the cost of the software licences over their useful lives of between 2 and 5 years. Software licences are stated at cost less accumulated amortisation.

*Other Intangibles*

Acquired customer relationships

Acquired customer relationships comprise principally of existing customer relationships which may give rise to future orders (customer relationships), and existing order books (backlog orders). Acquired customer relationships are recognised at fair value at the acquisition date and have a finite useful life. Amortisation of customer relationships is amortised in line with the expected cash flows. Acquired customer relationships are stated at cost less accumulated amortisation and impairment. Backlog orders are recognised at fair value at the acquisition date and amortised in line with the expected cash flows. Backlog orders are stated at cost less accumulated amortisation and impairment.

Trade names and trademarks

Trade names and trademarks have arisen on the consolidation of recently acquired businesses and are recognised at fair value at the acquisition date. Where trade names and trademarks are considered to have a finite useful life, amortisation is calculated using the straight-line method to allocate the cost of trade names and trademarks over their estimated useful lives. Where trade names and trademarks are considered to have an indefinite useful life, they are not subject to amortisation; they are tested annually for impairment and when there are indications that the carrying value may not be recoverable, as detailed within the impairment of non-financial assets section below. Trade names and trademarks are stated at cost less accumulated amortisation and impairment.

Other

Other intangible assets acquired by the Group and have a finite life useful lives are measured at cost less accumulated amortisation and accumulated losses. Amortisation of intangible assets is recognised in the income statement under administrative expenses. Provision is made against the carrying value of intangible assets where an impairment in value is deemed to have occurred. Impairment losses are recognised in the income statement under administrative expenses.

**ix Disposal of assets**

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement.

**x Operating lease agreements**

Rentals applicable to operating leases are charged against profits on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

## 1 The Group and Company significant accounting policies continued

**xi Taxation**
Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor 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 provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to offset against future taxable income. Current and 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.

Deferred tax on temporary differences associated with shares in subsidiaries is not provided if these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity (such as share-based payments) in which case the related deferred tax is also charged or credited directly to equity.

**xii Pension costs**
The Company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Company. The contributions payable are charged to the income statement as they accrue.

**xiii Share-based payment**
The transitional arrangements of IFRS 1 have been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 August 2006. All share-based remuneration is ultimately recognised as an expense in the income statement with a corresponding credit to 'share-based payment reserve'. All goods and services received in exchange for the grant of any share-based remuneration are measured at their fair values. Fair values of employee services are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting. Upon exercise of share options, proceeds received net of attributable transaction costs are credited to share capital and share premium.

The Company is the granting and settling entity in the Group share-based payment arrangement where share options are granted to employees of its subsidiary companies. The Company recognises the share-based payment expense as an increase in the investment in subsidiary undertakings.

The Group operates a Share Incentive Plan (SIP) which is HMRC approved, and enables employees to purchase Company shares out of pre-tax salary. For each share purchased the Company grants an additional share at no cost to the employee. The expense in relation to these 'free' shares is recorded as employee remuneration and measured at fair value of the shares issued as at the date of grant.

**xiv Business combinations completed prior to date of transition to IFRS**
The Group has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations prior to 1 August 2006.

Accordingly the classification of the combination (merger) remains unchanged from that used under UK GAAP. Assets and liabilities are recognised at date of transition if they would be recognised under IFRS, and are measured using their UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement. Deferred tax is adjusted for the impact of any consequential adjustments after taking advantage of the transitional provisions.

**xv Financial assets**
All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are recognised at fair value plus transaction costs.

In the Company financial statements, investment in the subsidiary company is measured at cost, and provision made where an impairment value is deemed to have occurred.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables are classified as loans and receivables. Loans and receivables are measured subsequent to initial recognition at amortised cost using effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

A financial asset is derecognised only where the contractual rights to cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for derecognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for derecognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

Trade receivables subject to the invoice discounting facility are recognised in the Statement of Financial Position until they are settled by the customer.

Trade receivables subject to factoring arrangements are derecognised in the Statement of Financial Position when the Group has transferred its rights to receive cash flows from the receivables; and either the Group has transferred substantially all of the risks and rewards of the ownership of the receivables, or the Group has neither transferred nor retained substantially all of the risks and rewards, but has transferred control of the assets.

**xvi Financial liabilities**
Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument and comprise trade and other payables and bank loans. Financial liabilities are recorded initially at fair value, net of direct issue costs and are subsequently measured at amortised cost using the effective interest rate method.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

**xvii Cash and cash equivalents**
Cash and cash equivalents comprise cash on hand, on demand deposits and bank overdrafts.

**xviii Dividends**
Dividend distributions payable to equity shareholders are included in 'other short-term financial liabilities' when the dividends are approved in general meeting prior to the balance sheet date.

**xix Foreign currencies**
Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Statement of Financial Position date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the profit or loss in the period in which they arise.

The assets and liabilities in the financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the Statement of Financial Position date. Income and expenses are translated at the actual rate. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to 'Translation of foreign operations' in equity. On disposal of a foreign operation the cumulative translation differences are transferred to the income statement as part of the gain or loss on disposal.

As permitted by IFRS 1, the balance on the cumulative translation adjustment on retranslation of subsidiaries' net assets has been set to zero at the date of transition to IFRS.

**xx 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.
- 'Share-based payment reserve' represents equity-settled share-based employee remuneration until such share options are exercised.
- 'Merger reserve' represents the equity balance arising on the merger of Matchtech Engineering and Matchmaker Personnel.
- 'Translation of foreign operations' represents the foreign currency differences arising on translating foreign operations into the presentational currency of the Group.
- 'Retained earnings' represents retained profits.

## 1 The Group and Company significant accounting policies continued

### xxi Significant accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an ongoing basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Critical judgements**
The judgements made which, in the opinion of the Directors, are critical in drawing up the financial statements are as follows:

*Invoice discounting facility*
The terms of this arrangement are judged to be such that the risk and rewards of ownership of the trade receivables do not pass to the finance provider. As such the receivables are not derecognised on draw-down of funds against this facility. This facility is recognised as a liability for the amount drawn.

*Factoring arrangements*
In the event of sale of receivables and factoring, the Group derecognises receivables when the Group has given up control or continuing involvement.

The Group derecognises receivables in case of sale and factoring when the Group has transferred its rights to receive cash flows from the receivables; and either the Group has transferred substantially all of the risks and rewards of the ownership of the receivables, or the Group has neither transferred nor retained substantially all of the risks and rewards, but has transferred control of the assets.

**Key sources of estimation uncertainty**
The key assumptions concerning the future and other key sources of estimation uncertainty at the Statement of Financial Position date are discussed below. These are included for completeness, although it is the Directors' view that none of these have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

*Estimated useful lives of property, plant and equipment*
The cost of equipment is depreciated on a straight-line basis and the cost of motor vehicles is depreciated on a reducing balance basis over their useful lives. Management estimates the useful lives of property, plant and equipment to be within 2 and 8 years. These are common life expectancies applied in the industry in which the Group operates. Changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

*Impairment loss of trade and other receivables*
The Group's policy for doubtful receivables is based on the ongoing evaluation of the collectability and ageing analysis of the trade and other receivables and on management's judgements. Considerable judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of the Group's receivables were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss of trade and other receivables may be required. The carrying amounts of these assets are shown in Note 15.

*Intangibles*
The Group determines whether goodwill and other intangible assets (including acquired intangibles) are impaired on an annual basis or otherwise when changes in events or situations indicate that the carrying value may not be recoverable. This requires an estimation of the recoverable amount of the cash-generating unit to which the assets are allocated. Consideration is given to the future cash flows of each cash-generating unit and the discount rate applied to calculate the present value of those cash flows.

**Restatement of prior period comparatives**
Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in finance costs or finance income. In previous periods these costs have been recognised within administrative expenses. The comparative figures have been restated to be consistent with the current year policy which has resulted in an increase in administrative costs in the year to 31 July 2013 of £178,000 with a corresponding increase to interest income.

## 2 Segmental information

The chief operating decision maker, as defined in IFRS 8, has been identified as the Board of Directors of Matchtech Group plc. The information reported below is consistent with the reports regularly provided to the Board of Directors.

### Reportable segments

**2014**

| All amounts in £'000 | Engineering | Professional Services | **Group Total** |
|---|---|---|---|
| Revenue | 311,602 | 139,989 | **451,591** |
| Gross profit | 27,077 | 17,905 | **44,982** |
| Profit from operations | 10,548 | 2,410 | **12,958** |
| Finance cost, net | (649) | (366) | **(1,015)** |
| Profit before tax | 9,899 | 2,044 | **11,943** |
| Depreciation and amortisation | 432 | 953 | **1,385** |
| Segment net assets | 59,295 | 11,046 | **70,341** |
| Unallocated net liabilities | | | **(27,678)** |
| **Total net assets** | | | **42,663** |

**2013**

| Restated<br>All amounts in £'000 | Engineering | Professional Services | Group Total |
|---|---|---|---|
| Revenue | 293,524 | 115,402 | 408,926 |
| Gross profit | 23,919 | 14,453 | 38,372 |
| Profit from operations | 8,916 | 1,582 | 10,498 |
| Finance cost, net | (405) | (197) | (602) |
| Profit before tax | 8,511 | 1,385 | 9,896 |
| Depreciation and amortisation | 572 | 244 | 816 |
| Segment net assets | 48,705 | 19,148 | 67,853 |
| Unallocated net liabilities | | | (35,531) |
| Total net assets | | | 32,322 |

A segmental analysis of total assets has not been included as this information is not available to the board; the majority of assets are centrally held and are not allocated across the reportable segments. Only trade receivables are reported by segment and as such they are included as segment net assets above. Unallocated net liabilities include non-current assets, other receivables, cash and cash equivalents and current liabilities.

### Geographical information

| | United Kingdom | | Germany | | Total | |
|---|---|---|---|---|---|---|
| All amounts in £'000 | **2014** | Restated 2013 | **2014** | Restated 2013 | **2014** | Restated 2013 |
| Revenue | **448,772** | 405,629 | **2,819** | 3,297 | **451,591** | 408,926 |
| Gross profit | **44,307** | 37,560 | **675** | 812 | **44,982** | 38,372 |
| Operating profit/(loss) | **13,119** | 10,726 | **(161)** | (228) | **12,958** | 10,498 |
| Finance cost, net | **(803)** | (724) | **(212)** | 122 | **(1,015)** | (602) |
| Profit/(loss) before tax | **12,316** | 10,002 | **(373)** | (106) | **11,943** | 9,896 |
| Depreciation and amortisation | **1,380** | 811 | **5** | 5 | **1,385** | 816 |
| Non-current assets | **5,141** | 2,625 | **1** | 9 | **5,142** | 2,634 |
| Net current assets/(liabilities) | **38,840** | 30,750 | **(1,319)** | (1,062) | **37,521** | 29,688 |
| **Total net assets/(liabilities)** | **43,981** | 33,375 | **(1,318)** | (1,053) | **42,663** | 32,322 |

Revenue and non-current assets are allocated to the geographic market based on the domicile of the respective subsidiary. Included within UK revenues is cross-border revenues of £13,667,000 (2013: £5,171,000).

## 2 Segmental information continued

**Largest customers**

During the year revenues of £35,287,000 (2013: £54,853,000) were generated from sales to the Group's largest client and its business process outsourcer. The majority of this revenue is included in the Engineering segment.

No single client contributed more than 10% of the Group's revenues.

## 3 Profit from operations

| | | | 2014 £'000 | 2013 £'000 |
|---|---|---|---|---|
| Profit from operations is stated after charging/(crediting): | | | | |
| Depreciation | | | **591** | 535 |
| Amortisation of acquired intangibles | | | **663** | 200 |
| Amortisation of software licences | | | **131** | 81 |
| Loss/(profit) on disposal of property, plant and equipment | | | **18** | (4) |
| Auditor's remuneration: | – fees payable for the audit of the Parent Company financial statements | | **10** | 10 |
| | – fees payable for the audit of the Subsidiary Company financial statements | | **77** | 63 |
| | – non-audit services: | taxation | **48** | 37 |
| | | other services pursuant to legislation | **6** | 11 |
| Operating lease costs: | – plant and machinery | | **197** | 172 |
| | – land and buildings | | **787** | 756 |
| Share-based payment charge | | | **1,335** | 610 |
| Net loss/(profit) on foreign currency translation | | | **280** | (177) |
| Acquisition costs | | | **72** | – |
| Restructuring costs | | | **–** | 425 |

Restructuring costs consist of non-recurring management and staff costs incurred during the reorganisation of the Group into two business units.

## 4 Particulars of employees

The average number of staff employed by the Group during the financial year amounted to:

| | 2014 No. | 2013 No. |
|---|---|---|
| Selling | **305** | 273 |
| Administration | **111** | 106 |
| Directors | **10** | 9 |
| **Total** | **426** | 388 |

The aggregate payroll costs of the above were:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Wages and salaries | **19,491** | 17,418 |
| Social security costs | **2,221** | 1,878 |
| Other pension costs | **542** | 396 |
| **Total** | **22,254** | 19,692 |

Disclosure of the remuneration of key management personnel, as required by IAS 24, is detailed below. Disclosure of the remuneration of the statutory Directors is further detailed in the audited part of the Remuneration Report on pages 32 to 37.

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Short-term employee benefits | **1,534** | 1,437 |
| Post employment benefits | **77** | 59 |
| Share-based payments | **461** | 228 |
| **Total** | **2,072** | 1,724 |

## 5 Finance costs

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Bank interest payable | **642** | 732 |
| Amortisation of capitalised finance costs | **92** | 50 |
| Foreign currency exchange differences | **281** | – |
| **Total** | **1,015** | 782 |

## 6 Dividends

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Equity dividends paid during the year at 18.26 pence per share (2013: 15.75 pence) | **4,516** | 3,704 |
| Equity dividends proposed after the year end (not recognised as a liability) at 14.59 pence per share (2013: 10.6 pence) | **3,642** | 3,170 |

A dividend will be declared from Matchtech Group (Holdings) Limited prior to the payment of the proposed dividend above.

## 7 Parent Company profit

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| The amount of profit dealt with in the accounts of the Company is | **3,345** | 4,140 |

The Company has taken advantage of the exemption in S408 of the Companies Act 2006 not to present the Parent Company's income statement.

## 8 Income tax

| | | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| Current tax: | UK corporation tax | **2,936** | 2,481 |
| | Prior year under/(over) provision | **79** | (30) |
| | | **3,015** | 2,451 |
| Deferred tax (note 14) | | **(194)** | (90) |
| **Income tax expense** | | **2,821** | 2,361 |

UK corporation tax has been charged at 22.3% (2013: 23.7%).

The charge for the year can be reconciled to the profit as per the income statement as follows:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Profit before tax | **11,943** | 9,896 |
| Profit before tax multiplied by the standard rate of corporation tax in the UK of 22.3% (2013: 23.7%) | **2,663** | 2,345 |
| Expenses not (chargeable)/deductible for tax purposes | **(3)** | 73 |
| Enhanced R&D tax relief | **–** | (62) |
| Adjustments to tax charge in respect of previous periods | **79** | (30) |
| Overseas losses not provided for | **82** | 35 |
| **Total tax charge for period** | **2,821** | 2,361 |

Tax charge recognised directly in equity:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Deferred tax recognised directly in equity | **109** | 223 |
| **Total tax recognised directly in equity** | **109** | 223 |

Reductions in the UK corporation tax rate to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the Group's future current tax charge accordingly. The deferred tax asset at 31 July 2014 has been calculated using a UK corporation tax rate of 20%.

## 9 Earnings per share

Earnings per share has been calculated by dividing the consolidated profit after taxation attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share has been calculated on the same basis as above, except that the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares (arising from the Group's share option schemes) into ordinary shares has been added to the denominator. There are no changes to the profit (numerator) as a result of the dilutive calculation. The number of dilutive shares has increased significantly due to the issue of new share options in the current year.

The earnings per share information has been calculated as follows:

| | **2014 £'000** | 2013 £'000 |
|---|---|---|
| Profit after tax attributable to ordinary shareholders | **9,122** | 7,535 |

| | **2014 '000s** | 2013 '000s |
|---|---|---|
| Weighted average number of ordinary shares in issue | **24,655** | 23,525 |
| Effect of dilutive potential ordinary shares | **1,418** | 987 |
| **Total** | **26,073** | 24,512 |

| | | **2014 pence** | 2013 pence |
|---|---|---|---|
| Earnings per ordinary share | – basic | **37.0** | 32.0 |
| | – diluted | **35.0** | 30.7 |

## 10 Acquisition

The Group completed the acquisition of the entire ordinary share capital of Application Services Limited, trading as Provanis, on 6 September 2013, for a total cash consideration of £4,296,000. Provanis is a technology recruitment business with niche expertise within the Oracle Applications marketplace which will complement the Group's technology business, Connectus, and will broaden the Group's capability in the global ERP recruitment market.

The consideration of £4,047,000 was paid on completion date with a further £249,000 In December 2013.

The acquisition had the following effect on the Group's assets and liabilities:

| | Net assets acquired £'000 | Fair value adjustments £'000 | Fair value £'000 |
|---|---|---|---|
| Intangible assets | – | 2,242 | 2,242 |
| Fixed assets | 4 | – | 4 |
| Cash | 126 | – | 126 |
| Trade and other receivables | 1,141 | – | 1,141 |
| Trade and other payables | (328) | – | (328) |
| Deferred tax liability | – | (448) | (448) |
| Current tax liability | (294) | 210 | (84) |
| Total | 649 | 2,004 | 2,653 |
| Goodwill | | | 1,643 |
| **Consideration paid** | | | **4,296** |

The fair value of the acquired tangible assets is equivalent to their book values.

Intangible assets have been identified relating to the candidate database, customer relationships, order backlog and trademarks, all intangible assets have been recognised at fair value. Goodwill represents expected synergies from combining operations of the acquiree and acquirer, the employees of Provanis and intangibles that do not qualify for separate recognition.

Adjustments to the fair values have been made since the provisional fair values were reported at 31 January 2014. These adjustments have been made within the measurement period to reflect the deferred tax liability arising on identifiable intangible assets and a current tax asset relating to the exercise of share options immediately prior to acquisition.

Amortisation of intangible assets is on a straight-line basis, with exception of the customer relationships which are amortised in line with expected cash flows for that period.

The Group incurred costs of acquisition of £72,000 for external legal fees, stamp duty and due diligence costs. These costs have been recognised in administrative expense in the Group's Consolidated Income Statement.

In the period between the acquisition and 31 July 2014 the Group benefited from £13,157,000 of revenue from Provanis, gross profit of £1,820,000 and profit after amortisation of intangibles of £276,000. If the acquisition had occurred on 1 August 2013, the Group would have benefited from revenue of £14,473,000, gross profit of £987,000 and profit from operations after amortisation of £341,000. The amortisation of intangibles was £579,000.

## 11 Intangible assets

**Group**

| | | Goodwill £'000 | Acquired intangibles £'000 | Software licences £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **COST** | At 1 August 2012 | – | – | 555 | 400 | 955 |
| | Additions | – | – | 418 | – | 418 |
| | At 1 August 2013 | – | – | 973 | 400 | 1,373 |
| | Additions | – | – | (22) | – | (22) |
| | Acquisitions | 1,643 | 2,242 | – | – | 3,885 |
| | **At 31 July 2014** | **1,643** | **2,242** | **951** | **400** | **5,236** |
| **AMORTISATION** | At 1 August 2012 | – | – | 341 | 116 | 457 |
| | Charge for the year | – | – | 81 | 200 | 281 |
| | At 1 August 2013 | – | – | 422 | 316 | 738 |
| | Charge for the year | – | 579 | 131 | 84 | 794 |
| | **At 31 July 2014** | **–** | **579** | **553** | **400** | **1,532** |
| **NET BOOK VALUE** | At 31 July 2013 | – | – | 551 | 84 | 635 |
| | **At 31 July 2014** | **1,643** | **1,663** | **398** | **–** | **3,704** |

Goodwill arising on business combinations is reviewed and tested on an annual basis or more frequently if there is indication that goodwill might be impaired.

Goodwill has been tested for impairment by comparing the carrying amount of each cash-generating unit (CGU), including goodwill, with the recoverable amount.

The recoverable amounts of the CGUs are determined from value-in-use calculations.

The key assumptions for the value-in-use calculations are as follows:

| | |
|---|---|
| Profit from operations: | The profit from operations is based on the latest 1 year forecast approved by the Group's Board of Directors which was prepared using expectations of revenue and operating cost growth. |
| Discount rates: | The pre-tax rate that was used to discount the forecast cash flows was 12.5% reflecting the Group's weighted average cost of capital (WACC). |
| Growth rates: | The long-term growth rates are based on management forecasts which are consistent with external sources at an average growth rate of 2.5%. |

Impairment reviews are performed at the year end by comparing the carrying value of goodwill with the recoverable amount of the CGUs to which goodwill has been allocated.

The impairment review determined that there has been no impairment to any of the CGUs. Sensitivity analysis has been performed in assessing recoverable amounts of goodwill. The sensitivity analysis shows no impairment would arise under each scenario for any of the CGUs.

Amortisation is charged through administrative expenses in the profit and loss account.

## 12 Property, plant and equipment

### Group

| | | Motor vehicles £'000 | Office equipment £'000 | Leasehold improvements £'000 | Computer equipment £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **COST** | At 1 August 2012 | 1,691 | 1,564 | 649 | 1,079 | 4,983 |
| | Additions | 182 | 30 | 57 | 215 | 484 |
| | Disposals | (161) | – | – | – | (161) |
| | At 1 August 2013 | 1,712 | 1,594 | 706 | 1,294 | 5,306 |
| | Additions | – | 8 | 221 | 60 | 289 |
| | Acquisitions | – | – | 4 | – | 4 |
| | Disposals | (539) | – | (108) | – | (647) |
| | **At 31 July 2014** | **1,173** | **1,602** | **823** | **1,354** | **4,952** |
| **DEPRECIATION** | At 1 August 2012 | 1,016 | 1,244 | 117 | 774 | 3,151 |
| | Charge for the year | 191 | 98 | 106 | 140 | 535 |
| | Released on disposal | (124) | – | – | – | (124) |
| | At 1 August 2013 | 1,083 | 1,342 | 223 | 914 | 3,562 |
| | Charge for the year | 154 | 165 | 107 | 165 | 591 |
| | Released on disposal | (469) | – | (60) | – | (529) |
| | **At 31 July 2014** | **768** | **1,507** | **270** | **1,079** | **3,624** |
| **NET BOOK VALUE** | At 31 July 2013 | 629 | 252 | 483 | 380 | 1,744 |
| | **At 31 July 2014** | **405** | **95** | **553** | **275** | **1,328** |

Included within leasehold improvements is a cost of £215,000 relating to the dilapidations provision (note 16).

There were no capital commitments as at 31 July 2014 or 31 July 2013.

## 13 Investments

| | Company | |
|---|---|---|
| | **2014 £'000** | 2013 £'000 |
| Investment in Group companies at 1 August | **2,068** | 1,458 |
| Movement in investment in Group companies | **1,335** | 610 |
| **Investment in Group companies at 31 July** | **3,403** | 2,068 |

### Subsidiary undertakings

| Company | Country of incorporation | Share class | % held | Main activities |
|---|---|---|---|---|
| Matchtech Group (Holdings) Limited | United Kingdom | Ordinary | 100% | Non-trading |
| Matchtech Group Management Company Limited | United Kingdom | Ordinary | 69% | Non-trading |
| Matchtech Group (UK) Limited | United Kingdom | Ordinary | 99.998% | Provision of recruitment consultancy |
| Matchtech Engineering Limited | United Kingdom | Ordinary | 100% | Non-trading |
| Matchmaker Personnel Limited | United Kingdom | Ordinary | 100% | Non-trading |
| Barclay Meade Limited | United Kingdom | Ordinary | 100% | Provision of recruitment consultancy |
| Alderwood Education Limited | United Kingdom | Ordinary | 100% | Provision of recruitment consultancy |
| elemense Limited | United Kingdom | Ordinary | 100% | Provision of recruitment consultancy |
| Connectus Technology Limited | United Kingdom | Ordinary | 100% | Provision of recruitment consultancy |
| Connectus Recruitment Limited | United Kingdom | Ordinary | 100% | Non-trading |
| Matchtech GmbH | Germany | Ordinary | 100% | Provision of recruitment consultancy |
| Matchtech BV | Netherlands | Ordinary | 100% | Non-trading |
| Matchtech Engineering Inc | USA | Ordinary | 100% | Non-trading |
| Application Services Limited | United Kingdom | Ordinary | 100% | Provision of recruitment consultancy |
| Provanis Limited | United Kingdom | Ordinary | 100% | Non-trading |

All holdings are indirect except Matchtech Group (Holdings) Limited and Matchtech GmbH.

Matchtech Group Management Company Limited has been consolidated under the Special Purpose Entity rules within International Accounting Standards. Although senior management of the Group hold a number of shares in Matchtech Group Management Company Limited, this entity is considered to be a special purpose entity and as such these shares are considered own shares held. No separate reserve is shown as the amounts held are immaterial.

## 14 Deferred tax

The deferred tax asset is represented by:

| | Group | |
|---|---|---|
| | **2014 £'000** | 2013 £'000 |
| Temporary difference on share-based payments | | |
| At 1 August | **533** | 220 |
| Acquisitions | **(448)** | – |
| Recognised in income | **194** | 90 |
| Recognised in equity | **109** | 223 |
| **At end of year** | **388** | 533 |

The rate of UK corporation tax applied to deferred tax calculations is 20% (2013: 20%).

## 15 Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2014 £'000** | 2013 £'000 | **2014 £'000** | 2013 £'000 |
| Trade receivables | **70,341** | 67,853 | **–** | – |
| Amounts owed by Group companies | **–** | – | **9,414** | 4,913 |
| Other receivables | **1,050** | 433 | **–** | – |
| Prepayments | **857** | 924 | **–** | – |
| **Total** | **72,248** | 69,210 | **9,414** | 4,913 |

The amounts due from Group undertakings in the Company Statement of Financial Position are considered to approximate to fair value.

Days sales outstanding at the year end based upon the preceding 3 months' revenue were 45.9 days (2013: 48.9 days). The allowance for doubtful debts has been determined by reference to previous experience and management assessment of debts.

The Directors consider that the carrying amount of trade and other receivables approximates to the fair value.

Included in the Group's trade receivable balance are debtors with a carrying amount of £8,297,000 (2013: £6,037,000) which are past due at the reporting date for which the Group has not provided as the Directors do not believe there has been a significant change in credit quality and consider the amounts to be recoverable in full. The Group does not hold any collateral over these balances.

The Group uses a third party credit scoring system to assess the creditworthiness of potential new customers before accepting them. Credit limits are defined by customer based on this information. All customer accounts are subject to review on a regular basis by senior management and actions are taken to address debt ageing issues.

The Directors believe that there is no requirement for further provision over and above the allowance for doubtful debts.

Ageing of past due but not impaired trade receivables:

| | Group | |
|---|---|---|
| | **2014 £'000** | 2013 £'000 |
| 0–30 days | **7,264** | 4,845 |
| 30–60 days | **999** | 808 |
| 60–90 days | **34** | 372 |
| 90+ days | **–** | 12 |
| **Total** | **8,297** | 6,037 |

## 15 Trade and other receivables continued

Movement in the allowance for doubtful debts:

| | Group | |
|---|---|---|
| | 2014 £'000 | 2013 £'000 |
| Balance at the beginning of the year | 585 | 260 |
| Impairment losses (reversed)/recognised | (285) | 325 |
| **Balance at the end of the year** | **300** | 585 |

Ageing of impaired trade receivables:

| | Group | |
|---|---|---|
| | 2014 £'000 | 2013 £'000 |
| Not past due at reporting date | – | – |
| 0–30 days | – | 5 |
| 30–60 days | 8 | 11 |
| 60–90 days | 91 | 60 |
| 90+ days | 201 | 509 |
| **Total** | **300** | 585 |

## 16 Provisions

| | Group | |
|---|---|---|
| | 2014 £'000 | 2013 £'000 |
| Balance at start and end of year | 278 | 278 |
| Non-current | – | – |
| Current | 278 | 278 |
| | 278 | 278 |

The above provision relates to a dilapidations provision based on the requirement to return leased buildings to their original condition at the end of the lease term. The provision relates to 5 offices held under lease arrangements that expire between August 2016 and June 2017. The Group annually assesses the lease obligation and provides for onerous leases as required by IAS 37.

## 17 Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 £'000 | 2013 £'000 | 2014 £'000 | 2013 £'000 |
| Trade payables | 10 | – | – | – |
| Amounts owed to Group companies | – | – | 2,189 | 688 |
| Taxation and social security | 5,280 | 6,636 | – | – |
| Contractor wages creditor | 21,108 | 17,469 | – | – |
| Accruals and deferred income | 3,405 | 3,031 | – | – |
| Other payables | 309 | 664 | – | – |
| **Total** | **30,112** | 27,800 | **2,189** | 688 |

## 18 Financial assets and liabilities statement of financial position classification

The carrying amount of the Group's financial assets and liabilities as recognised at the Statement of Financial Position date of the reporting periods under review may also be categorised as follows:

Financial assets are included in the Statement of Financial Position within the following headings:

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 £'000 | 2013 £'000 | 2014 £'000 | 2013 £'000 |
| Trade and other receivables | | | | |
| – Loan and receivables | 71,391 | 68,286 | 9,414 | 4,913 |
| Cash and cash equivalents | | | | |
| – Loan and receivables | 569 | 857 | 39 | 39 |
| **Total** | **71,960** | 69,143 | **9,453** | 4,952 |

Financial liabilities are included in the Statement of Financial Position within the following headings:

| | Group 2014 £'000 | Group 2013 £'000 |
|---|---|---|
| **Current liabilities** | | |
| Borrowings | | |
| – Financial liabilities recorded at amortised cost | **3,678** | 11,350 |
| Trade and other payables | | |
| – Financial liabilities recorded at amortised cost | **24,832** | 21,164 |
| **Total** | **28,150** | 32,514 |

The amounts at which the assets and liabilities above are recorded are considered to approximate to fair value.

The working capital facility is secured by way of an all assets debenture, dated 5 August 2002, which contains fixed and floating charges over the assets of the Group. The facility held with Barclays Bank allows the Company to borrow up to 90% of its invoiced debtors up to a maximum of £50m. Interest is charged on borrowings at a rate of 2% over Barclays Bank base rate. On 30 July 2014 the Group agreed to transfer its banking relationship to HSBC with committed facilities allowing the Group to borrow up to 90% of its invoiced debtors up to a maximum of £60m. Interest is charged on borrowings at a rate of 1.1% over HSBC bank base rate.

## 19 Commitments under operating leases

At 31 July 2014 the Group had commitments to pay the following amounts under non-cancellable operating leases as set out below:

| | | | Group 2014 £'000 | Group 2013 £'000 |
|---|---|---|---|---|
| **Land/buildings** | Payments falling due: | within 1 year | **875** | 815 |
| | | within 1 to 5 years | **1,824** | 2,340 |
| | | after 5 years | **138** | 138 |
| **Other** | Payments falling due: | within 1 year | **233** | 94 |
| | | within 1 to 5 years | **541** | 29 |

## 20 Share capital

**Authorised share capital**

| | Company 2014 £'000 | Company 2013 £'000 |
|---|---|---|
| 40,000,000 ordinary shares of £0.01 each | **400** | 400 |

**Allotted, called up and fully paid**

| | Company 2014 £'000 | Company 2013 £'000 |
|---|---|---|
| 24,965,000 (2013: 23,616,000) ordinary shares of £0.01 each | **250** | 236 |

The number of shares in issue in the Company is shown below:

| | Company 2014 £'000 | Company 2013 £'000 |
|---|---|---|
| In issue at 1 August | **23,616** | 23,445 |
| Exercise of share options | **299** | 145 |
| Share placing | **1,050** | – |
| Shares granted under Share Incentive Plan | **–** | 26 |
| **In issue at 31 July** | **24,965** | 23,616 |

## 20 Share capital continued

**Share options**

The following options arrangements exist over the Company's shares:

| | 2014 '000s | 2013 '000s | Date of grant | Exercise price pence | Exercise period From | To |
|---|---|---|---|---|---|---|
| Key Share Options | **5** | 32 | 01/12/2005 | 146 | 01/06/2007 | 01/12/2015 |
| Key Share Options | **–** | 1 | 18/06/2004 | 70 | 18/06/2005 | 18/06/2014 |
| Key Share Options | **–** | 1 | 08/11/2004 | 89 | 14/07/2006 | 08/11/2014 |
| Target/Loyalty Share Options | **3** | 10 | 01/12/2005 | 146 | 01/12/2006 | 01/12/2015 |
| Deferred Share Bonus | **6** | 16 | 18/01/2010 | 1 | 18/01/2012 | 18/01/2020 |
| Deferred Share Bonus | **6** | 16 | 18/01/2010 | 1 | 18/01/2013 | 18/01/2020 |
| Zero Priced Share Option Bonus | **1** | 10 | 18/01/2010 | 1 | 18/01/2012 | 18/01/2020 |
| Zero Priced Share Option Bonus | **1** | 10 | 18/01/2010 | 1 | 18/01/2013 | 18/01/2020 |
| Zero Priced Share Option Bonus | **2** | 20 | 04/02/2011 | 1 | 25/01/2013 | 04/02/2021 |
| Zero Priced Share Option Bonus | **2** | 188 | 04/02/2011 | 1 | 03/02/2014 | 04/02/2021 |
| Long-Term Incentive Plan Options | **51** | 51 | 31/01/2012 | 1 | 30/01/2015 | 31/01/2022 |
| Zero Priced Share Option Bonus | **12** | 33 | 31/01/2012 | 1 | 30/01/2014 | 31/01/2022 |
| Zero Priced Share Option Bonus | **213** | 232 | 31/01/2012 | 1 | 30/01/2015 | 31/01/2022 |
| Long-Term Incentive Plan Options | **57** | 57 | 31/01/2013 | 1 | 30/01/2016 | 31/01/2023 |
| Zero Priced Share Option Bonus | **38** | 44 | 31/01/2013 | 1 | 30/01/2015 | 31/01/2023 |
| Zero Priced Share Option Bonus | **257** | 281 | 31/01/2013 | 1 | 30/01/2016 | 31/01/2023 |
| Value Creation Plan | **380** | – | 14/11/2013 | 1 | 18/11/2016 | 18/11/2021 |
| Value Creation Plan | **380** | – | 14/11/2013 | 1 | 18/11/2017 | 18/11/2021 |
| Zero Priced Share Option Bonus | **60** | – | 01/01/2014 | 1 | 01/01/2016 | 01/01/2024 |
| Zero Priced Share Option Bonus | **383** | – | 01/01/2014 | 1 | 01/01/2017 | 01/01/2024 |
| Long-Term Incentive Plan Options | **156** | – | 24/01/2014 | 1 | 24/01/2017 | 24/01/2024 |
| Deferred Share Bonus | **19** | – | 24/01/2014 | 1 | 24/01/2015 | 24/01/2024 |
| Deferred Share Bonus | **19** | – | 24/01/2014 | 1 | 24/01/2016 | 24/01/2024 |
| **Total** | **2,051** | 1,002 | | | | |

The Group granted share options under a Long-Term Incentive Plan (LTIP) and Deferred Share Bonus Plan for Executive Directors on 24 January 2014. The LTIP options are subject to an EPS performance target. The zero priced share options were granted on 1 January 2014 to members of staff subject to 2 and 3 year holding periods.

During the year the Group granted share options under the value creation plan (VCP) to Executive Directors and key staff, 50% of the options are exercisable on 18 November 2016 with the remaining 50% exercisable one year later.

All share options have a life of 10 years and are equity-settled on exercise.

The movement in share options is shown below:

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Number '000s** | **Weighted average exercise price (pence)** | **Weighted average share price (pence)** | Number '000s | Weighted average exercise price (pence) | Weighted average share price (pence) |
| Outstanding at 1 August | **1,002** | **7.2** | **–** | 931 | 19.3 | – |
| Granted | **1,434** | **1.0** | **–** | 397 | 1.0 | – |
| Forfeited/lapsed | **(108)** | **1.0** | **–** | (166) | 1.0 | – |
| Exercised | **(277)** | **19.3** | **561.9** | (160) | 66.0 | 290.7 |
| **Outstanding at 31 July** | **2,051** | **1.7** | | 1,002 | 7.2 | |
| **Exercisable at 31 July** | **38** | **1.7** | | 116 | 53.9 | |

The number of share options granted includes the deferred share bonus options.

The numbers and weighted average exercise prices of share options vesting in the future are shown below.

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| Exercise date | **Weighted average remaining contract life (months)** | **Number '000s** | **Weighted average exercise price (pence)** | Weighted average remaining contract life (months) | Number '000s | Weighted average exercise price (pence) |
| 24/01/2015 | **6** | **19** | **1.0** | 6 | 33 | 1.0 |
| 30/01/2015 | **6** | **302** | **1.0** | 18 | 327 | 1.0 |
| 01/01/2016 | **17** | **60** | **1.0** | – | – | – |
| 24/01/2016 | **18** | **19** | **1.0** | – | – | – |
| 30/01/2016 | **18** | **314** | **1.0** | 30 | 338 | 1.0 |
| 18/11/2016 | **28** | **380** | **1.0** | – | – | – |
| 01/01/2017 | **29** | **383** | **1.0** | – | – | – |
| 24/01/2017 | **30** | **156** | **1.0** | – | – | – |
| 18/11/2017 | **40** | **380** | **1.0** | – | – | – |
| **Total** | | **2,013** | | | 698 | |

In addition to the share option schemes the Group operated a Share Incentive Plan (SIP), which is an HMRC approved plan available to all employees enabling them to purchase shares out of pre-tax salary. For each share purchased the Company grants an additional share at no cost.

The fair values of the share options and the SIPs are included in the table below. The values of the VCP options granted in the year were calculated using a Monte Carlo simulation method along with the assumptions as detailed below. The values of the LTIP and zero price options were calculated using a Black-Scholes method along with the assumptions as detailed below. The fair values of the SIPs and Deferred Bonus Shares were calculated as the market values on the date of the grant adjusted for the assumptions as detailed below.

| Date of grant | | Share price on the date of grant (£) | Exercise price (£) | Volatility (%) | Vesting period (years) | Dividend yield (%) | Risk free rate of interest (%) | Fair value (£) |
|---|---|---|---|---|---|---|---|---|
| 07/08/2012 | SIP | 2.03 | 0.01 | N/A | 3.00 | N/A | N/A | 2.03 |
| 12/09/2012 | SIP | 2.04 | 0.01 | N/A | 3.00 | N/A | N/A | 2.04 |
| 05/10/2012 | SIP | 2.21 | 0.01 | N/A | 3.00 | N/A | N/A | 2.21 |
| 09/11/2012 | SIP | 2.37 | 0.01 | N/A | 3.00 | N/A | N/A | 2.37 |
| 12/12/2012 | SIP | 2.33 | 0.01 | N/A | 3.00 | N/A | N/A | 2.33 |
| 11/01/2013 | SIP | 2.63 | 0.01 | N/A | 3.00 | N/A | N/A | 2.63 |
| 31/01/2013 | LTIP | 2.67 | 0.01 | 14.0 | 2.00 | 5.8 | 0.56 | 1.76 |
| 31/01/2013 | Deferred bonus | 2.67 | 0.01 | N/A | 3.00 | 5.8 | 0.56 | 2.27 |
| 31/01/2013 | Deferred bonus | 2.67 | 0.01 | N/A | 2.00 | 5.8 | 0.37 | 2.41 |
| 31/01/2013 | LTIP | 2.67 | 0.01 | 14.0 | 3.00 | 5.8 | 0.56 | 2.24 |
| 31/01/2013 | LTIP | 2.67 | 0.01 | 14.0 | 3.00 | 5.8 | 0.56 | 2.24 |
| 08/02/2013 | SIP | 2.73 | 0.01 | N/A | 3.00 | N/A | N/A | 2.73 |
| 12/03/2013 | SIP | 2.87 | 0.01 | N/A | 3.00 | N/A | N/A | 2.87 |
| 12/04/2013 | SIP | 3.47 | 0.01 | N/A | 3.00 | N/A | N/A | 3.47 |
| 10/05/2013 | SIP | 3.38 | 0.01 | N/A | 3.00 | N/A | N/A | 3.38 |
| 01/01/2014 | LTIP | 5.75 | 0.01 | 16.8 | 2.00 | 3.1 | 1.18 | 5.22 |
| 01/01/2014 | LTIP | 5.75 | 0.01 | 16.8 | 3.00 | 3.1 | 1.18 | 5.22 |
| 24/01/2014 | Zero price bonus | 5.93 | 0.01 | 17.0 | 3.00 | 3.0 | 1.18 | 5.40 |

The volatility of the Company's share price on each date of grant was calculated as the average of the annualised standard deviations of daily continuously compounded returns on the Company's stock, calculated over 5 years back from the date of grant, where applicable. The risk-free rate is the yield to maturity on the date of grant of a UK Gilt Strip, with term to maturity equal to the life of the option. LTIP awards are subject to a TSR test. This 'market' based condition is taken into account in the date of grant fair calculation.

## 21 Transactions with Directors and related parties

During the year the Group made sales of £37,000 (2013: £64,000) to Ctruk Group Limited and £nil (2013: £72,000) to CWind Limited, both related parties by virtue of the common directorship of Andy White. The Group also made sales of £268,000 (2013: £177,000) to InHealth Group which is a related party by virtue of common directorship of Richard Bradford. As at the year end Ctruk Group Limited had a balance outstanding of £3,000 (2013: £nil), CWind Limited had a balance outstanding of £nil (2013: £nil) and InHealth Group had a balance outstanding of £44,000 (2013: £55,000). All transactions were undertaken at an arms length price.

There were no other related party transactions with entities outside of the Group.

During the year Matchtech Group (UK) Limited charged Matchtech Group plc £496,000 (2013: £436,000) for provision of management services. Further details of transactions with Directors are included in the Directors' Remuneration Report on pages 32 to 37.

## 22 Financial instruments

The financial risk management policies and objectives including those related to financial instruments and the qualitative risk exposure details, comprising credit and other applicable risks, are included within the Chief Financial Officer's Report under the heading Group financial risk management.

### Maturity of financial liabilities

The Group financial liabilities analysis at 31 July 2014 was as follows:

| | Group | |
|---|---|---|
| | **2014 £'000** | 2013 £'000 |
| In less than 1 year or on demand: | | |
| Bank overdrafts | **332** | 67 |
| Working capital facility | **3,346** | 11,375 |
| Finance costs capitalised | **–** | (92) |
| Bank loans and overdrafts | **3,678** | 11,350 |
| Trade and other payables | **24,832** | 21,164 |
| **Total** | **28,510** | 32,514 |

### Borrowing facilities

The Group makes use of a working capital facility, details of which can be found in Note 18. The undrawn facility available at 31 July 2014 in respect of which all conditions precedent had been met was as follows:

| | Group | |
|---|---|---|
| | **2014 £'000** | 2013 £'000 |
| Expiring in 1 to 5 years | **46,654** | 38,625 |

On 30 July 2014 the Group agreed to transfer its banking relationship to HSBC with committed facilities of £60m until July 2017.

The Directors have calculated that the effect on profit of a 1% movement in interest rates would be £285,000.

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

Net foreign currency monetary assets are shown below:

| | Group | |
|---|---|---|
| | **2014 £'000** | 2013 £'000 |
| Euros | **884** | 1,232 |

In the Directors' opinion, the exposure to foreign currency risk is not material to the Group therefore a sensitivity analysis in this area has not been included.

## 23 Capital management policies and procedures

Matchtech Group plc's capital management objectives are:

- to ensure the Group's ability to continue as a going concern; and to provide an adequate return to shareholders; and
- by pricing products and services commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the Statement of Financial Position.

The Group sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. Capital for the reporting period under review is summarised as follows:

| | Group | |
|---|---|---|
| | **2014 £'000** | 2013 £'000 |
| Total equity | **42,663** | 32,322 |
| Cash and cash equivalents | **(569)** | (857) |
| Capital | **42,094** | 31,465 |
| | | |
| Total equity | **42,663** | 32,322 |
| Borrowings | **3,678** | 11,350 |
| Overall financing | **46,341** | 43,672 |
| | | |
| Capital to overall financing ratio | **91%** | 72% |

# Corporate Advisors

| | |
|---|---|
| **Financial PR** | Newgate Threadneedle,<br>50 Basinghall Street,<br>London EC2V 5DE |
| **Auditors** | KPMG Audit Plc,<br>Dukes Keep,<br>Marsh Lane,<br>Southampton,<br>Hampshire SO14 3EX |
| **Solicitors to the Company** | Osborne Clarke,<br>One London Wall,<br>London EC2Y 5EB |
| **Nominated Advisor and Broker** | Numis Securities Limited,<br>The London Stock Exchange Building,<br>10 Paternoster Square,<br>London EC4M 7LT |
| **Principal Bankers** | Barclays Bank,<br>Barclays House,<br>3rd Floor, Ocean Way,<br>Southampton,<br>Hampshire SO14 2ZP |
| **Invoice Finance Bankers** | Barclays Bank plc,<br>Barclays Commercial,<br>PO Box 6751,<br>Basingstoke RG24 4HN |
| **Registrars** | Capita Asset Services,<br>34 Beckenham Road,<br>Beckenham,<br>Kent BR3 4TU |

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