Cupid plc

Directors' report and financial statements

Registered number SC368538

31 December 2011

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Performance highlights

Financial highlights

- **Revenues increased by 109% to £53.6M (FY 2010: £25.7M)**
- **EBITDA increased by 89% to £10.6M (FY 2010: £5.6M)**
- **Adjusted EBITDA* increased by 95% to £11.3M (FY 2010: £5.8M)**
- **Growth in both established markets and new markets**
- **Strong margins in established markets (UK, Australia, New Zealand, Ireland)**
- **New markets (USA, France, Canada, Germany, Italy, Spain) also starting to contribute significantly to profitability**
- **Several acquisitions made during 2011**
- **Cash position increased to £7.8M at 31 Dec 2011 (31 Dec 2010: £6.0M)**

Operational Highlights

- **Improvement in user key metrics**
- **Establishing strong growing foothold in North American market**
- **Improved customer experience and reduced customer churn**

*Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, share based payments and acquisition costs.

Company profile

- Cupid plc (formerly Easydate plc) listed on AIM in June 2010 and is a leading provider of online dating services

- Cupid has built significant and growing revenues in 15 countries.

- Cupid offers a wide variety of online dating services allowing members to interact with each other and access the content available on the Group's websites. These websites are intended to appeal to dating users of diverse ages, cultures and social interest groups. The Group's most heavily visited websites include www.cupid.com, www.flirt.com, www.benaughty.com, www.girlsdateforfree.com and www.datetheuk.com. The Group also promotes the niche brands www.datingforparents.com, www.speeddater.com and www.maturedating.co.uk.

- The majority of services are also available via Apple and Android App Stores for mobile users as well as through their own Facebook apps –
eg. http://apps.facebook.com/cupidcom and http://apps.facebook.com/benaughtynow.

- Further information on the Company can be found at www.cupidplc.com.

Chairman's statement

Cupid plc has continued to deliver a strong performance whilst growing a widening international subscriber footprint.

Over the past two years the business has evolved from a company relying heavily on the UK market for revenues and profits to one operating within multiple territories, with more than 50% of total revenues now coming from outside the UK. The investment in these overseas territories has been undertaken largely through targetted marketing spend, supplemented by several acquisitions. We have continued to deliver a strong profit performance whilst making this international expansion. This is testimony to the strength of the team within the Company.

During 2011 the Company acquired 75% of two German businesses and 100% of a small Brazilian business. The German businesses should generate good revenues in the short term, whereas the Brazilian business provides good medium to long term potential.

Continual innovative development of new products and features is a core part of our business. As an exciting example, we have continued to develop market leading applications for our brands and have seen increasing volumes of customers accessing our services via mobile devices and social networks.

During the year we made a number of improvements to the infrastructure of the business including the implementation of new call handling systems. We have also established a second data centre which reinforces our commitment to continually improving our customer experience.

Your Company is ambitious to achieve its full potential, consequently we have decided to strengthen our Board through the appointment of two experienced non executive directors. We welcome Ian McCaig, former CEO of Lastminute.com, and Russ Shaw, former VP & General Manager of Skype Europe. As part of the Board evolution, Martin Higginson leaves the Board to concentrate on other business interests. In addition our co-founder Max Polyakov is stepping down from the Board to pursue a new social gaming venture in the USA and will remain involved as a consultant to the Company. We thank both for their significant contribution to the Board.

The ongoing international expansion of our Company, our strong financial position and highly performing marketing capability provide the Board with confidence in our ability to execute on our growth strategy. The strong start that has been made to 2012 reinforces this view.

Finally I would like to take this opportunity to thank our shareholders for their support during our second year as a public company.

Chief Executive Officer's review

Review of 2011

2011 was an important year in the development of Cupid plc, best described as the year when we became a truly international company – building significant and growing revenues in 15 countries, and acquiring businesses in Germany and Brazil which will help in the implementation of our expansion plans. Our recent licence to operate the Friends Reunited Dating business shows that we will seek commercial transactions in the more mature markets of UK and USA, thereby leveraging our investment in staff and infrastructure.

We continue to widen the company's global presence and now have growing organisational units in the UK, USA and Germany, as well as our main operational base in Ukraine. All of this whilst delivering significant financial progress for shareholders in terms of value and dividends.

Revenue has more than doubled in the year, growing from £25.7m in 2010 to £53.6m in 2011, and adjusted EBITDA has grown from £5.8m in 2010 to £11.3m in 2011.

We continue to grow strongly and look for earnings and value enhancing opportunities in the UK and overseas, with the goal of becoming a recognised global player in the growing market for online, mobile and social network based dating services.

Our staff numbers have been expanded to support this growth and we now have over 420 employees – once more I thank them for all their effort and commitment, and look forward to a continued bright future for them and the Company.

The Market

Internet dating and relationship building via the Internet continue to gain social acceptance – we cannot fail to notice the significant growth of Facebook, LinkedIn and other social network giants. These are all welcome macro developments as people use the Internet not only to find dates, but common interests, companionship, advice, travel tips and many other social interactions.

Last year I reported that Facebook had become a significant new channel for Cupid and this trend continues. Another significant new channel is mobile – 24% of our users are now registering via mobile and 20% of our marketing spend is directed towards mobile devices. We launched Cupid's first interactive magazine in 2011 and we will continue to pursue such innovations on new social and mobile networks as they emerge.

The market is clearly global, and while Cupid's 2012 focus is to continue the growth within its international footprint, it is pleasing to note that our longest established markets of the UK and Australia continue to grow steadily.

Our near term goal is to grow our USA and European business units to be bigger than our original UK and Australian territories, and to establish more significant plans for India and Brazil as the business models for making significant profits emerge in these territories.

Operational Review

The successful share placing in April 2011 allowed us to raise funds to continue our modest acquisition strategy whenever it made sense; the IndianDating acquisition, OnLineLiebe GmbH and Womenweb GmbH acquisitions in Germany, AondeNamoro Brazilian acquisition and, more recently the Friends Reunited Dating licence. They have been integrated without additional staff or infrastructure investment. We have retained a small group of staff in Munich to manage and develop a female web portal (womenweb.de) which was part of the business acquired in Germany.

All of this activity has happened while we continue to deliver strong organic growth in revenue.

-Products

To improve customer service and increase resilience we recently opened an additional data centre in USA.

All our main products are available on the Web, via Apple and Android mobile devices, and via Facebook. Further product development will allow users to access our products seamlessly via all these digital channels – communicating via email, SMS and Messenger to suit. Browser toolbars and our own *chat client* have also been developed to improve usability and encourage communication between our customers.

Our products have been internationalised (our core network of Cupid, BeNaughty, GirlsDateforFree and Flirt were revenue generating/operating in 15 countries as at December 2011), and are also available in Apple, Android and Facebook applications. We continue to interact with a large number of users via Facebook and other social networks, where we had over 1.8m installations of our product in January 2012.

-Customer Service
It was recognised in late 2010 that our customer service systems, policies and processes needed to improve to keep pace with business growth. We have invested in all of these areas and are happy to report a significant reduction in churn in our most mature markets, together with an improving trend in the developing markets. We have also added enhanced multi lingual capabilities to our support centre.

-Marketing
Our marketing strategy continues to be predominantly digital and our marketing team is currently effectively managing digital spends of around £4m per month across Google, Mobile, Affiliate Networks and Facebook. We are increasingly buying affiliate traffic from site owners directly as opposed to via CPA (cost per acquisition) networks, thus increasing our marketing effectiveness and controlling our spend.

In addition to this we have started experimenting with TV advertising in the UK and billboard advertising in Germany. It is too early to comment on the long term effectiveness of these initiatives; however they both offer further growth potential and the ability to reduce our dependence on any one channel to market.

-Investors in People
We achieved Investors in People accreditation in 2011, and roll out staff development and training initiatives across the company as part of the business's philosophy of developing staff internally. The company now employs 420 people between Edinburgh, London, Dnipropetrovsk, Zaporozhye, Munich and Palo Alto.

-Share issue
The successful share placing in April 2011 raised funds to expand into Germany through the combined purchases of 75% of both OnlineLiebe GmbH and Women Web GmbH (for a combined £2.5m in June 2011), and also into Brazil through the purchase of the Aonde Namoro business (£0.5M in August 2011).

Financial Review
The 2011 financial results show continued growth in revenue and profit within all three territories.

Established Markets:
Our most established market position is within the UK, Australia, New Zealand and Ireland. These are our "Established Markets". Revenue growth of 38% has been generated from FY 2010 to FY 2011 within these countries.

These established markets, where we have a firm base of members and subscribers, are very profitable for us. These countries generate 79% of the company's profit contribution from 57% of the company's revenue. We expect ongoing revenue growth within these countries to be at a sustained rate of between 10-15%. In 2011, we spent 39% of revenue on direct marketing costs. This level is consistent within an established market.

New Markets:
The new markets which we have entered within the past 2 years (our "New Markets") include the USA, Canada, France, Italy, Spain and Germany. Our revenues within these countries are growing even faster than our revenues within the more established markets. We continue to market heavily within these New Markets as we see significant potential for more growth. As we grow rapidly, our online marketing spend is high as a percentage of revenues and in 2011 the rate of direct marketing spend was 79% of revenues. As each of these markets becomes more established for us, we see a trend where we achieve user critical mass, lower churn rates and lower cost to acquire subscribers, thereby allowing a lower percentage of marketing spend and improved profit margin, consistent with the Established Markets.

Most of the increased marketing spend in the second half of 2011 was made in the New Markets, particularly France and the USA where we have seen strong subscriber numbers and revenue growth, with this continuing into 2012.

Developing Territories:
The markets with medium to longer term potential for Cupid plc are what we classify as the Developing Territories. These include Brazil and India. Our Indian revenues continue to show promise and in August 2011 we acquired a small Brazilian business, which we shall utilise as a catalyst for growth in South America.

Overall, the strong profitability within the 2011 financial year has been achieved whilst investing in the New Markets and Developing Territories. In the second half of 2011 we invested 19% more in direct marketing than in the first half of 2011. This is a similar trend to that which we followed in 2010.

Looking ahead we expect to see sustained growth from our Established Markets, supplemented by rapid revenue growth from the New Markets. As our products reach maturity within these New Markets we expect them to generate profit at increased margins.

The largest single cost within Cupid plc is our marketing spend. In 2011 we spent £29.9m on direct marketing costs. Our ability to spend this wisely has been developed over six years, and we believe that this experience and pricing power is one of the barriers to successful growth for other businesses wishing to compete in this market.

Over the past 12 months we have been able to add to and enhance the Cupid plc team to allow us to deliver this rapid growth, and maintain and develop the financial systems and processes to control it.

Dividend
The directors propose a final ordinary dividend in respect of the current financial year of 2.25p per share (2010: total dividend of 1.32p per share). This has not been included within creditors, as it was not approved before the year-end. Subject to approval at the Annual General Meeting on 15 June 2012, the final dividend will be paid on 29 June 2012 to shareholders on the register on 1 June 2012.

The level of dividend is intended to deliver a dividend yield the directors believe is appropriate for a company of this size and nature. The Board intends to continue with a progressive dividend policy based on the Group's retained annual earnings. The level of distributions will, however, be subject to the Group's working capital requirements and the ongoing needs of the business.

Trading Update 2012
We have had a strong start to 2012. Year to date revenues at 29 February 2012 (after two complete months) are £12.0m, which places Cupid plc ahead of 2012 revenue expectations. In particular we have seen strong growth from USA and Western Europe. The growth that we have seen in 2012 is as a result of effective marketing spend in the latter part of 2011 and into 2012.

Whilst it is still early in the year, we are confident that the business is well positioned for another year of growth in revenues and profits.

Outlook
In 2011 we have generated subscriber numbers and revenue of good scale in a number of large geographical markets. The markets for our products continue to grow and at the same time we continue to enter and perform well in new markets.

We continued to invest heavily in marketing throughout 2011 in each of our markets whilst also generating good profit growth. This continued marketing investment has put us in a strong position for ongoing growth in 2012. We remain confident that we will grow value for shareholders in 2012 and beyond.

Our team is talented and our infrastructure is robust. This is combined with a growing database of members and profiles where we have a unique and meaningful insight into online relationship habits and trends.

We remain resolute in our ambition to be a recognised global player in the digital dating and relationship sector.

Finally, on a personal note, I thank Max Polyakov our co-founder and Martin Higginson for their significant personal contribution to the Board of Cupid, and I wish them both well for the future on behalf of all the staff and shareholders.

Directors' report

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

Principal activities

The principal activity of the Company is the development and sale of online dating services.

Business review

Corporate History

The Company was incorporated on 13 November 2009. On 15 December 2009 it acquired the trade and certain assets and liabilities of Easydate Limited, which had traded as part of the private company IDE Group.

In June 2010 the Company successfully completed its IPO on the London Stock Exchange AIM Market (Ticker: CUP) and on 17 January 2011 the Company changed its name from Easydate plc to Cupid plc.

Market Position and Products

The Directors are very pleased with the significant progress made during the period.

Cupid plc continues to expand in the UK domestic market and internationally, with a combination of organic and acquisitive growth. Full details of the Company's market position and products are given in the Operational Review.

The Directors are satisfied with the performance of the Group for the year and expect this growth to continue in future years.

Financial highlights and key performance indicator review

- Revenues of £53.6M (FY 2010: £25.7M)

The growth in revenue from FY 2010 to FY 2011 has occurred in Cupid's Established Markets (UK, Australia, New Zealand and Ireland) as well as in its New Markets (USA, Canada, France, Italy, Spain, Germany).

In early 2010 the decision was taken to take Cupid's products into a number of overseas markets and invest in online marketing within these markets, as well as making selective acquisitions which could accelerate growth in these markets. This expansion has been funded by a combination of two equity raisings, one at IPO in June 2010 and one in April 2011, as well as utilising operationally generated cash.

During 2011 the number of paying subscribers has grown from 324,000 at the start of the year to 486,000 at the end of December 11.

In addition, the number of members active in the past six months has increased from 6 million at December 2010 to over 16 million at 2011 as the Company increased in scale in existing countries as well as expanding in a number of new markets.

The successful share placing in April 2011 raised funds to expand into Germany through the combined purchases of 75% of both OnlineLiebe GmbH and WomenWeb GmbH (for a combined consideration of £2.5M in June 2011) and also into Brazil through the purchase of 100% of AondeNamoro (£0.5M in August 2011).

Cupid plc is now active in 58 countries with a database of 56 million member profiles registered.

- Adjusted EBITDA of £11.3M (FY 2010: £5.8M) and EBITDA of £10.6M (FY 2010: £5.6M)

The strong profitability within the 2011 financial year has been achieved whilst continuing to invest in online marketing at increased levels in new markets to drive revenue growth.

The growth in international revenues and profits will continue to be an ongoing strategic objective for the business.

The Board has chosen to report an adjusted EBITDA (adjusted EBITDA of earnings before interest, tax, depreciation, amortisation, share based payments and acquisition costs) consistent with other acquisitive companies as it allows the reporting the underlying profitability generated by operations on a consistent year to year basis.

The largest single cost within Cupid plc is marketing spend, with online marketing accounting for most of this spend. In 2011 the Company spent £29.9M on direct marketing (FY 2010: £13.8M). Of the total direct marketing spend 97% was spent on online marketing. The direct marketing spend excludes any internal labour costs.

Management believe that the Company's ability to market effectively online is one of the barriers to successful growth for other businesses wishing to compete in this market.

Directors' report *(continued)*

- £7.8M cash in the bank

During the year Cupid plc has continued to grow through increased expenditure on marketing, particularly in the second half of 2011. This combined with the increased number of markets and payment gateways required has impacted operating cashflow. The intention in 2012 is to focus on growth within the existing country footprint. In addition Cupid has financed the acquisition of several businesses and paid the final instalments of the Allegran 2010 purchase price.

During 2011 the Company raised £5.0M from a share placing, made several acquisitions as outlined above and completed payment under the deferred payment plan from the March 2010 acquisition of the Allegran business from DMGT.

In addition the Group has continued to generate operating cashflows whilst expanding into a number of new territories and investing marketing spend to do so.

Operational Highlights and Future Developments

Cupid plc continues to grow strongly with a positive outlook going forward as outlined in the Chairman's Statement, Chief Executive Officer's and Financial Review and Operational Review.

Research and Development

The Group continually invests in developing and innovating within its products as outlined in the Operational Review.

Principal Risks and Uncertainties and Key Performance Indicators (KPIs)

The Board has established a formal process to identify risks and uncertainties through the production and maintenance of a risk register. There are a number of potential risks and uncertainties which have been identified as a result of this process which could have a material impact on the Group's future performance. These are not all the risks which the Board has identified but those that the directors currently consider to be the most material. In addition to these risks Note 19 contains details of financial risks.

Staff
As with any service organisation the Group is dependent on the skill, experience and commitment of its employees and especially a relatively small number of senior staff.
The Group seeks to recruit and retain suitably skilled and experienced staff by offering a challenging and rewarding work environment. This includes competitive and innovative reward packages, including stock option plans and a strong commitment to training and development.

With a large volume of Cupid operational staff concentrated in two locations within the Ukraine there is an added risk to the Group should there be any political, environmental, economic or fiscal changes within the Ukraine. The Group continues to identify key Ukraine based staff and has an ongoing policy of encouraging their development eg transfers to other Group offices, such as the UK and Germany.

Datacentre operation
Any downtime experienced at our datacentres would immediately have an impact on the Group's ability to provide customers with the level of service they demand. The Group's ongoing investment in preventative maintenance and lifecycle replacement programme ensures its datacentres continue to deliver operational efficiency and effectiveness.

Reputation
The Group operates a number of dating sites which are mainly marketed through the internet. In the event of the reputation of one or all of the sites being damaged, this would have an impact on consumer confidence in the Group's products and the Group's ability to generate revenues. As the business has been growing rapidly there has been significant investment in customer relationship systems and customer service staffing to meet the growing business demands.

Directors' report *(continued)*

Credit card processing

The Group relies on recurring billing for ongoing generation of revenue from customers via credit cards. Changes to credit card billing rules could impact upon the Group's ability to automatically rebill these customers. The Group has revenue in a wide range of countries which mitigates some of this risk should changes be made in specific countries. This risk affects many internet subscriptions services.

Key suppliers

The Group is dependent on certain key suppliers for the continued generation of internet marketing. The Group actively seeks to maintain good relationships with these suppliers. The Group also seeks to maintain an increasingly diversified range of other marketing partners to mitigate some of this risk.

Banking relationships

The Group relies on relationships with credit card processing companies, banks and other payment processors to enable it to continue to receive customer payments. The Group actively manages these relationships through a dedicated in-house team, which includes having a wide spread of payment processing relationships to mitigate reliance on any particular provider.

Community

The Group seeks to be a good corporate citizen respecting the laws of the countries in which it operates and adheres to best social practice where feasible. It aims to be sensitive to the local community's cultural, social and economic needs.

Environment

The Group recognises that the nature of its business has inherently limited impact on the environment. However, every effort is made to ensure the environmental impact of the Group's operational practices is kept to a minimum, including strict adherence to all statutory requirements. To this end, a policy of minimising and recycling waste and conserving energy is pursued wherever it is viable to do so.

Directors

The directors who held office during the period were as follows:

Maxym Polyakov	Resigned 6 March 2012
Martin Higginson	Resigned 6 March 2012
Bill Dobbie	
George Elliott	
Mark Doughty	
Ian McCaig	Appointed 6 March 2012
Russ Shaw	Appointed 6 March 2012

Company Secretary

Mark Doughty

Details of the Directors and Company Secretary of the Company in office at the date of this report, and each officer's qualifications, experience and special responsibilities are below.

George Elliott, age 59 – Non-Executive Chairman

George joined Cupid plc as Non-Executive Chairman in June 2010.

George is also non-executive chairman of AIM-quoted Craneware plc, a leading supplier of revenue cycle software for the US healthcare industry, California and Kewill plc, a trade and logistics software solutions provider, which is listed on the main market of the London Stock Exchange. George is also a non-executive director of AIM-quoted drug discovery company Summit Corporation plc and Corsair Components Inc., a designer and supplier of high-performance components to the PC gaming hardware market, based in Fremont, California.

Directors' report *(continued)*

From 2000 to 2007, George was chief financial officer of Wolfson Microelectronics plc, a leading global provider of high performance semiconductors to the consumer electronics market. During his tenure, he oversaw the company gaining entry to the FTSE 250 Index.

Prior to this, he was chief financial officer at Calluna plc and business development director at McQueen International Ltd (now Sykes), where he was responsible for strategic sales and marketing.

George, formerly a partner of Grant Thornton, is a chartered accountant and is a graduate of Heriot-Watt University in accountancy and finance and is based in Edinburgh.

George is a member of the Remuneration Committee and Chairman of the Audit Committee of Cupid plc.

Bill Dobbie, age 52 – Chief Executive Officer and Co-founder

Bill is an experienced entrepreneur and director specialising in internet, telecoms and technology businesses. He has led a number of successful private equity funded businesses and recently retired from a 7-year spell at Iomart PLC (IOM) spanning founder to non-executive positions. Bill has been a Director of Demon Internet, Prestel, Teledata, Scottish Telecom (Thus) and several other companies. His early career was with Unisys in the UK and Australia.
Bill is currently a non-executive director of Maxymiser Ltd a provider of online marketing software and services and Tag-Games Ltd.

Bill has an Honours degree in Pure Mathematics from the University of St.Andrews, and an MBA from the University of Glasgow.

Mark Doughty, age 43 – Chief Financial Officer and Company Secretary

Prior to joining Cupid plc in April 2010, Mark spent 4 years as CFO and COO of Australian Stock Exchange listed Jumbuck Entertainment Ltd, one of the world leaders in mobile chat and dating.

Mark has many years' experience with fast growing international businesses having been CFO of Edinburgh based web learning company The Interactive University and listed technology company Memory Corporation plc. Mark has also co-founded a growing software business.

Mark is a graduate of Heriot-Watt University in Accountancy and Finance and is a PWC qualified Scottish CA.

Ian McCaig, age 45 – Non-executive Director

Ian spent 8 years at internet travel business, lastminute.com, and as CEO for the last 5 years he led the evolution of the business from a high growth early stage internet business to a mature and established company. Before that, Ian held senior management positions at Nokia and Telewest Communications. Ian currently serves as CEO of First Utility, the energy provider and smart metering innovator.

Ian joined the Board on 6 March 2012 and it is expected that he will serve on at least one committee.

Directors' report *(continued)*

Russell James Shaw, age 49 – Non-executive Director

Russell was Vice President and General Manager of Skype Europe, Middle-East and Africa and Mobile from 2009 to 2011. Prior to this, Russell spent four years at Telefonica SA, initially as Marketing Director of O2, and latterly as the Global Director of Innovation, following its acquisition by Telefonica. He has also spent a year as Chief Executive of Mobileway Inc. and two years as Managing Director of NTL Home London for NTL Group Limited. His earlier experience includes positions at Charles Schwab Corporation, American Express Company and Ernst and Young. Russell currently serves as a non-executive director on the Boards of mobile solutions businesses Unwire APS and Dialog Semiconductor GmbH, and video games retailer, Game Group plc. He is also Chairman of the Marketing Board of Great Britain.

Russell joined the Board on 6 March 2012 and it is expected that he will serve on at least one committee.

The Directors have the power to manage the business of the Company, subject to the provisions of the Companies Act, The Memorandum and Articles of Association of the Company, and to any directions given by Special Resolution, including the Company's power to purchase its own shares. The Company's Articles of Association may only be amended by a Special Resolution of the Company's shareholders. During the year the Company's Articles of Association were amended, prior to IPO, to bring them into line with the Companies Act 2006.

Details of the Directors service contracts and their respective notice terms are detailed in the Remuneration Committee Report on page 22.

Authorised and Issued Share Capital

On 11th April 2011 4,545,454 shares were issued as a result of a rights issue.

236,680 shares were issued as a result of the exercising of share options in April 2011, 548,080 shares were issued as a result of the exercising of share options in June 2011 and a further 330,227 shares were issued as a result of the exercising of share options in September 2011.

The result is that the Company has 81,106,108 ordinary shares issued and fully paid up as at the closing Balance Sheet date of 31 December 2011.

As at that date the authorised share capital was 100,594,222 shares of 2.5p.

No further new ordinary shares have been issued since the end of the financial year to the date of this report.

Details concerning the structure of the Company's capital can be found in note 18 to the accounts. There are no restrictions on the transfer of securities and there are no holders of securities with special rights. None of the shares held in the employee share scheme have attached rights nor are there any agreements between holders of securities.

Financial risk management policy
The Group's policies for managing financial risks and use of financial instruments are given in note 19.

Supplier payment policy and practice

The Company and its subsidiaries agree the terms of payment when negotiating the terms and conditions for their transactions with their suppliers. Payment is made in compliance with those terms, subject to the terms and conditions of the relevant transaction having been met by the supplier. Trade creditor days of the Group at 31 December 2011 were 32 days (2010: 62 days), and of the Company were 32 days (2010: 62 days). This represents the ratio, expressed in days, between the amounts invoiced to the Company in the year by its suppliers and the amounts due, at the year end, to trade creditors falling due for payment within one year.

Directors' report *(continued)*

Directors' interests in shares

The interests of the directors in the ordinary shares of the Company at 31 December 2011, together with their interests at 31 December 2010 were as follows:

Name of director	Number of ordinary shares 31 December 2011	31 December 2010
George Elliott	**26,000**	**15,000**
Bill Dobbie	**19,811,053**	**24,356,507**
Max Polyakov	****18,569,208**	***20,387,390**
Martin Higginson	**-**	**600**
Mark Doughty	**24,600**	**4,600**

* shares held by Opalta Limited

** shares held by Perimeter Trust

Directors' interests in share options

The interests of the directors at 31 December 2011 in options over the ordinary shares of the Company were as follows:

Name of director	At 31/12/10	Exercised	Granted	At 31/12/11	Exercise price	Market price at date of award	Date of grant	Date from when exercisable	Expiry date
Martin Higginson	398,600	(398,600)	-	-	£0.03	Prior to listing	15/12/09	15/12/09	14/12/19
	398,560	-	-	398,560	£0.03	Prior to listing	15/12/09	15/12/11	14/12/19
Total	**797,160**	**(398,600)**	**-**	**398,560**					
Mark Doughty	181,360	(181,333)	-	27	£0.1625	Prior to listing	14/06/10	14/06/11	13/06/20
	181,320	-	-	181,320	£0.1625	Prior to listing	14/06/10	14/06/12	13/06/20
	181,320	-	-	181,320	£0.1625	Prior to listing	14/06/10	14/06/13	13/06/20
	83,334	-	-	83,334	£0.94	£0.94	22/09/10	22/09/11	22/09/20
	83,333	-	-	83,333	£0.94	£0.94	22/09/10	22/09/12	22/09/20
	83,333	-	-	83,333	£0.94	£0.94	22/09/10	22/09/13	22/09/20
	*400,000	-	-	400,000	£1.09	£1.09	17/12/10	17/12/11	17/12/20
	-	-	133,334	133,334	£1.76	£1.76	03/06/11	03/06/12	03/06/21
	-	-	133,333	133,333	£1.76	£1.76	03/06/11	03/06/13	03/06/21
	-	-	133,333	133,333	£1.76	£1.76	03/06/11	03/06/14	03/06/21
Total	**1,194,000**	**(181,333)**	**400,000**	**1,412,667**					

*options required the weighted average share price of the Company to exceed £1.50 for three consecutive months before they vested. This condition was met during 2011.

On 30 June 2011 Martin Higginson exercised 398,600 stock options at £0.03 per share and subsequently sold 137,418 shares on 8 July 2011 at a price of £2.37 each and 261,182 shares on 2 September 2011 at a price of £2.45 each.

On 12 September 2011 Mark Doughty exercised 181,333 stock options at £0.1625 per share and sold 161,333 shares on the same date at a price of £2.41 each.

The market price of the company's shares at the end of the financial period was £1.89 and the range of prices during the period from 1 January 2011 to the end of the financial period was £1.05 to £2.50.

Directors' report *(continued)*

Substantial Shareholders

At 7 March 2012 the following interests in 3% or more of the issued ordinary share capital had been notified to the company:

Shareholder name	Number of ordinary shares	Percentage of issued share capital
Bill Dobbie	19,811,053	24.5%
Perimeter Trust (on behalf of Max Polyakov)	18,569,208	22.9%
Majedie Asset Management	5,391,500	6.7%
Investec	5,000,000	6.2%
William Currie Investments	3,250.000	4.1%
Angus MacSween	2,501,010	3.1%

Indemnity of Directors and Officers

Under the Company's Articles of Association and subject to the provisions of the Companies Act, the Company may and has indemnified all Directors or other officers against liability incurred by him in the execution or discharge of his duties or exercise of his powers, including but not limited to any liability for the costs of legal proceedings where judgement is given in their favour. In addition, the Company has purchased and maintains appropriate insurance cover against legal action brought against Directors and officers.

There was no qualifying pension scheme indemnity provision in force during the year for any of the directors.

Political and charitable contributions

Neither the Company nor any of its subsidiaries made any political or charitable donations or incurred any political expenditure during the period.

Employment of Disabled Person

Applications for employment for disabled persons are always fully considered. Training and career development, as far as possible, is treated identically for all employees. Should an employee become disabled during employment, every effort would be made to ensure that their employment continues.

Change In Control

Should a change in control occur, there would be no significant agreements affected and in the event of a takeover bid, there are no agreements that provide for compensation for directors or employees.

Post Year End Events

Details of post balance sheet events are discussed in note 24 of the accounts.

Dividend

The directors propose a final ordinary dividend in respect of the current financial year of 2.25p per share. This has not been included within creditors as it was not approved before the year end. Subject to approval at the Annual General Meeting on 15 June 2012, the final dividend will be paid on 29 June 2012 to shareholders on the register on 1 June 2012.

Directors' report *(continued)*

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board
Mark Doughty
Director

23 Manor Place
Edinburgh
EH3 7XE

21 March 2012

Corporate governance report

The Board of Directors ("The Board") acknowledge the importance of the Principles set out in The Combined Code on Corporate Governance as applicable under the Listing Rules of the UK Listing Authority (the "Code"). Although the Code is not compulsory for AIM listed companies, the Board has applied its principles as far as practicable for a public Company of its size in this Report and the Remuneration Committee Report beginning on page 21.

The Board

The Code requires the Company to have an effective Board whose role is to develop strategy and provide leadership to the Company as a whole, as well as ensuring a framework of controls exist which allow for the identification, assessment and management of risk, ultimately taking collective responsibility for the success of the Company.

Through the leadership of the Chairman, the Board sets the Company's strategic goals; ensuring obligations to shareholders are met. There is a formal schedule of matters reserved for the Board for decision, which include approval of Group strategy, annual budgets and business plans, acquisitions, disposals, business development, annual reports, interim statements, and any significant funding and capital expenditure plans.

The Board meets regularly, usually monthly, to discuss and agree on the various matters brought before it, including the trading results. The Company has a highly committed and experienced Board, which is supported by a senior management team, with the qualification and experience necessary for the running of the Group.

In addition, there is regular communication between Executive and Non-Executive Directors,, where appropriate, to update the Non-Executive Directors on matters requiring attention prior to the next Board meeting. The Non-Executive Directors will meet at least annually without Executive Directors being present and further meet annually without the Chairman present.

Through these and the measures outlined below, the Board believes it has met its requirements in this area.

Role of the Chairman and Chief Executive Officer

The Code requires that there should be a clear division of responsibilities between the running of the Board and the executive responsible for the Company's business, so as to ensure that no one person has unrestricted powers of decision.

The Board has met this requirement by establishing clearly defined and well understood roles for George Elliott as Chairman of the Company, and Bill Dobbie as Chief Executive Officer. The Chairman is responsible for the leadership of the Board, ensuring its effectiveness and setting its agenda. Once strategic and financial objectives have been agreed by the Board, it is the Chief Executive Officer's responsibility to ensure they are delivered upon. To facilitate this, the Chief Executive Officer chairs the Group's Operations Board which additionally comprises the Chief Financial Officer and the Senior Management Team. The day-to-day operation of the Group's business is managed by this Board, subject to clearly defined authority limits.

The Chairman, George Elliott, holds other directorships, as detailed in his biography on page 9. The Board has considered the time commitment required by his other roles and has concluded they do not detract from his chairmanship of the Company.

Composition of and Appointments to the Board

The Code requires that there should be a balance of Executive and Non-Executive Directors and when appointing new Directors to the Board there should be a formal, rigorous and transparent procedure.

The Board comprises a Non-Executive Chairman, Chief Executive Officer, Chief Financial Officer and two independent Non-Executive Directors. Short Biographies of the directors are given starting on page 9. All Non-Executive Directors serving at the year-end are considered to be independent.

The Board is satisfied with this balance between Executive and Non-Executive Directors. The Board considers that its composition is appropriate in view of the size and requirements of the Group's business and the need to maintain a practical balance between Executive and Non-Executive Directors.

Each member of the Board brings different experience and skills to the Board and its various committees. The Board composition is kept under review as this mix of skills and business experience is a major contribution the proper functioning of the Board, helping to ensure matters are fully debated and that no individual or group dominates the Board decision-making process.

Corporate governance report *(continued)*

Composition of and Appointments to the Board *(continued)*

When a new appointment to the Board is made, consideration is given to the particular skills, knowledge and experience that a potential new member could add to the existing Board composition. A formal process is them undertaken, usually involving external recruitment agencies, with appropriate consideration being given, in regards to Executive appointments, to internal and external candidates. Before undertaking the appointment of a Non-Executive Director, the Chairman establishes that the prospective Director can give the time and commitment necessary to fulfil their duties, in terms of availability both to prepare for and attend meetings and to discuss matters at other times.

Information and Development

A further principle of the Code is that information of a sufficient quality is supplied to the Board in a timely manner. The Chairman, in conjunction with the Company Secretary, agrees Board agendas and ensures the Board is supplied with information that is timely, accurate and clear on all aspects of the Company's business, thereby enabling the Board to fulfil its duties.

The Chairman is responsible for ensuring that all the Directors continually update their skills, their knowledge and familiarity with the Group in order to fulfil their role on the Board and the Board's Committees. Updates dealing with changes in legislation and regulation relevant to the Group's business are provided to the Board by the Company Secretary/Chief Financial Officer and through the Board Committees.

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring the Board procedures are properly complied with and that the discussions and decisions are appropriately minuted. Directors may seek independent professional advice at the Company's expense in furtherance of their duties as Directors.

Training in matters relevant to their role on the Board is available to all Board Directors. New Directors are provided with an induction in order to introduce them to the operations and management of the business.

Performance Evaluation

The Code requires the Board to undertake a formal and rigorous evaluation of its own performance annually and that of its committees and individual Directors.

During 2011, a formal evaluation as conducted by means of a detailed questionnaire was completed by each Director. The results of this process were collated by the Chairman and presented to the Board as a whole. Based on this evaluation, the Board took steps to implement agreed upon suggestions.

Re-election

Under the Code, Directors should offer themselves for re-election at regular intervals and under the Company's Articles of Association, at every Annual General Meeting, at least one third of the Directors who are subject to retirement by rotation, are required to retire and may be proposed for re-election. In addition, any Director who was last appointed or re-appointed three years or more prior to the AGM is required to retire from office and may be proposed for re-election. Such retirement will count in obtaining the number required to retire at the AGM. New Directors, who were not appointed at the previous AGM, automatically retire at their first AGM and, if eligible, can seek re-appointment.

Two directors will retire from office at the Company's forthcoming AGM and stand for re-appointment.

Corporate governance report *(continued)*

Board Committees

The Board has established two committees to deal with specific aspects of the Board's affairs: Audit and Remuneration Committees. The terms of reference of these Committees are available on request from the Company.

The Committees review their terms of reference and their effectiveness annually and, if necessary, recommend any changes to the Board. The minutes of the Committee meetings are available to all directors and oral updates are given at Board meetings.

Attendance at Board and Committee Meetings

Attendances of Directors at Board and Committee meetings convened in the year, along with the number of meetings that they were invited to attend, are set out below:

	Board	Remuneration Committee	Audit Committee
Number of meetings in year	12	3	3
George Elliott – Non-Executive Chairman	12/12	3/3	3/3
Bill Dobbie – Chief Executive Officer	12/12		
Max Polyakov – Chief Operating Officer	10/12		
Martin Higginson – Non-Executive Director	12/12	3/3	3/3
Mark Doughty – Chief Financial Officer	12/12		

The Audit Committee

The Audit Committee's role is to assist the Board with the discharge of its responsibilities in relation the internal and external audits and controls. The Audit Committee will normally meet at least three times a year. The Audit Committee is chaired by George Elliott and its other member is Martin Higginson. The Chief Financial Officer, Chief Executive Officer and other senior management attend meetings by invitation and the Committee also meets the external auditors without management present. George Elliott as chairman of the Audit Committee, has recent and relevant financial experience.

During the year, the Audit Committee, operating under its terms of reference, discharged its responsibilities, including reviewing and monitoring:

- interim and annual reports, information including consideration of the appropriateness of accounting policies and material assumptions and estimates adopted by management;
- developments in accounting and reporting requirements;
- external auditors' plans for the year-end audit of the Company and its subsidiaries;
- the Committee's effectiveness;
- the Risks and Controls Report covering the systems of internal control and their effectiveness, reporting and making new recommendations to the Board on the results of the review and receiving regular updates on key risk areas of financial control;
- the requirements or otherwise for an internal audit function;
- the performance and independence of the external auditors concluding in a recommendation to the Board on the reappointment of the auditors by shareholders at the Annual General Meeting. The auditors provide annually a letter to the Committee confirming their independence and stating the methods they employ to safeguard their independence;
- non-audit fees charges by the external auditors; and
- the formal engagement terms entered into with the external auditors.

Corporate governance report *(continued)*

During the year, the Committee considered the requirement for internal audit and concluded, due to the current size and complexity of the Company, that a formal internal audit function was not required.

Under its terms of reference the Audit Committee is responsible for monitoring the independence, objectivity and performance of external auditors, and for making a recommendation to the Board regarding the appointment of external auditors on an annual basis. The Group's external auditors, KPMG Audit Plc, were first appointed as external auditor of the company for the period ended 31 December 2009.

The Audit Committee has also implemented procedures relating to the provision of non-audit services by the Company auditors, which include requiring non-audit work and any related fees over and above a de-minimis level to be approved in advance by the chairman of the Audit committee.

The Remuneration Committee

The Remuneration Committee was chaired by Martin Higginson and its other member is George Elliott. It is usual for Bill Dobbie, as Chief Executive Officer, to be invited to attend meetings except where matters under review by the Committee relate to him.

The Committee has responsibility for making recommendations to the Board on the remuneration packages of the Executive Directors, and monitor the level and structure of remuneration for senior management, this include:

- making recommendations to the Board on the Company's policy on Directors' and senior staff remuneration, and to oversee long term incentive plans (including share option schemes);
- ensuring remuneration is both appropriate to the level of responsibility and adequate to attract and/or retain Directors and staff of the calibre required by the Company; and
- Ensuring that remuneration is in line with current industry practice.

Internal Control

The Directors, who are responsible for the Group's system of internal control, have established systems to ensure that an appropriate level of oversight and control is provided. The systems are reviewed for effectiveness annually by the Audit Committee and the Board. The Group's systems of internal control are designed to help the Company meet its business objectives by appropriately managing, rather than eliminating, the risks to those objectives. The controls can only provide reasonable, not absolute, assurance against material misstatement or loss

Executive Directors and senior management meet to review both the risks facing the business and the controls established to minimise those risks and their effectiveness in operation on an on-going basis. The aim of these reviews is to provide reasonable assurance that material risks and problems are identified and appropriate action taken at an early stage.

The Board confirms that procedures to identify, evaluate and manage the significant risks faced by the Group have been in place throughout the year and up to the date of approval of the Annual Report.

Financial Control

The annual financial plan is reviewed and approved by the Board. Financial results with comparisons to plan and forecast results are reported on monthly to the Board together with a report on operational achievements, objectives and issues encountered. Forecasts are updated monthly in the light of market developments and the underlying performance and expectations. Significant variances from plan are discussed at Board meetings and actions set in place to address them.

Approval levels for authorisation of expenditure are set and cascaded through the management structure with any expenditure in excess of predefined levels requiring approval from the Executive Directors and selected senior managers.

Corporate governance report *(continued)*

Quality of Personnel and Employee Involvement

The Group is committed to attracting and retaining the highest level of personnel. It strives to do this through, amongst other things, the application of high standards in recruitment.

The Group is aware of the importance of good communication in relationships with its staff. The Group follows a policy of encouraging training and regular meetings between management and staff in order to provide a common awareness on the part of the staff of the financial and economic circumstances affecting the company's performance. A number of employees participate in the growth of the business through the ownership of share options with many employees also participating in the Group bonus scheme.

Commitment to Continuous Improvement

Measures continue to be taken to review and embed internal controls and risk management procedures into the business processes of the organisation and to deal with areas of improvement which come to the management's and the Board's attention. Metrics and quality objectives continue to be actively implemented and monitored as part of a continual improvement programme.

Business Ethics

The Board recognises that the Company is accountable to its shareholders and, at the same time, seeks to take into account the interests of all its stakeholders including customers, suppliers and subcontractors, employees, as well as the local community, and the environment in which it operates.

The Group maintains core values of Honesty, Integrity, Hard Work, Service and Quality and actively promotes these values in all activities undertaken on behalf of the Group.

Customers

The Group treats all its customers with the utmost respect and seeks to be honest and fair in all relationships with them. The Group provides its customers with products of high quality.

Suppliers and Subcontractors

Relationships with suppliers and subcontractors are based on mutual respect, and the Group seeks to be honest and fair in its relationships with suppliers and subcontractors, and to honour the terms and conditions of its agreements in place with such suppliers and subcontractors.

The Group is aware that the giving or accepting of bribes is not acceptable business conduct.

Employees

The Group recognises the importance of its employees and that the success of the Group is due to their efforts. The Group respects the dignity and rights of all its employees. The Group provides clean, healthy and safe working conditions. An inclusive working environment and a culture of openness are maintained by the regular dissemination of information. The Group endeavours to provide equal opportunities for all employees and facilitates the development of employee's skill sets. A fair remuneration policy is adopted throughout the Group.

The Group does not tolerate any sexual, physical or mental harassment of its employees. The Group operates an equal opportunities policy and specifically prohibits discrimination on grounds of colour, ethnic origin, gender, ages, religion, political or other opinion, disability, or sexual orientation.

Community

The Group seeks to be a good corporate citizen respecting the laws of the countries in which it operates and adheres to best social practice where feasible. It aims to be sensitive to the local community's cultural, social and economic needs.

Environment

The Group recognises that the nature of its business has inherently limited impact on the environment. However, every effort is made to ensure the environmental impact of the Group's operational practices is kept to a minimum, including strict adherence to all statutory requirements. To this end, a policy of minimising and recycling waste and conserving energy is pursued wherever it is viable to do so.

Corporate governance report *(continued)*

Relations with Shareholders

The Chief Executive Officer and Chief Financial Officer have, where appropriate, had regular dialogue with shareholders and analysts to discuss strategic and other issues including the company's financial results.

The Company engages in full and open communication and both institutional and private investors and responds promptly to all queries received. In conjunction with the Company's brokers and other financial advisers all relevant news is distributed in a timely fashion through appropriate channels to ensure shareholders are able to access material information on the company's progress. The Company's website has a section for investors, which contains all publicly financial information and news on the Company.

Going Concern

The Directors, having made suitable enquiries and analysis of the accounts, consider that the Group has adequate resources to continue in business for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements. In making this assessment, the Directors have considered the Group budgets, the cash flow forecasts and associated risks.

AIM Rule Compliance Report

Cupid plc is quoted on AIM and as a result the Company has complied with AIM Rule 31 which requires the following:

- Have in place sufficient procedures, resources and controls to enable its compliance with the AIM Rules;
- Seek advice from its Nominated Advisor ("Nomad") regarding its compliance with the Rules whenever appropriate and take that advice into account;
- Provide the Company's Nomad with any information it reasonably requests in order for the Nomad to carry out its responsibilities under the AIM Rules for Nominated Advisors, including any proposed changes to the Board and Provision of draft notifications in advance;
- Ensure that each of the Company's Directors accepts full responsibility, collectively and individually, for compliance with the AIM rules; and
- Ensure that each Director discloses without delay all information which the Company needs in order to comply with AIM Rule 17 (Disclosure of Miscellaneous Information) insofar as that information is known to the director or could with reasonable diligence be ascertained by the Director.

Approved by the Board of Directors and signed on behalf of the Board by:

Mark Doughty
Company Secretary

21 March 2012

Remuneration Committee Report

This report sets out Cupid plc's remuneration and benefits for the financial year under review. A resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be presented for approval.

Remuneration Committee

The Company has a Remuneration Committee ("the Committee") in accordance with the recommendations of the Combined Code. The members of the Committee were Martin Higginson (Chairman) and George Elliott. None of the Committee has any personal financial interests, other than as shareholders, in matters directly decided by this Committee, nor are there any conflicts of interests arising from cross directorships or day to day involvement in the running of the business.

The Company's Chief Executive Officer often attends meetings, at the invitation of the Committee, to advise on operational aspects of implementing existing and proposed policies. The Company Secretary acts as secretary to the Committee. Under the Committee Chairman's direction, the Chief Executive Officer and the Company Secretary have responsibility for ensuring the Committee has the information relevant to its deliberations. In formulation its policies, the Committee has access, as required, to professional advice from outside the Company and to publicly available reports and statistics.

The remuneration of the non-executive Directors is determined by the Board as a whole within limits set out in the Articles of Association.

Policy

Executive remuneration packages are designed to attract, motivate and retain directors of the calibre necessary to achieve the Group's growth objectives and to reward them for enhancing shareholder value. The main elements are:

- Basic salary and benefits in kind
- Annual performance related bonus
- Share Option awards

The Company's policy is that a substantial proportion of the remuneration of Executive Directors should be performance related.

Directors' remuneration

In assessing all aspects of the package provided, the Committee compares packages offered by similar AIM listed companies, The Committee has designed the overall Director's remuneration packages to ensure both the short and long term objectives of the Company are met and potentially exceeded and also that the Directors are incentivised to maximise return to the Company's shareholders.

The remuneration package comprises:

(i) Basic Salary

This is normally reviewed annually, usually in December, or when an individual's position or responsibilities change and is normally paid as a fixed cash sum monthly.

(ii) Annual Performance Related Bonus

Under the annual performance related bonus plan Executive Directors are eligible to earn a cash bonus payment based on targets that are set by the Committee. In determining these targets, the Committee's objective is to set targets that reflect challenging financial performance in the current year, but also provide for the future growth of the Group, measures adopted relate to profitability growth and personal contribution to the expansion of the business during the year.

(iii) Share Options

The Company operates the Cupid Employees' Share Option Plan ("Share Option Plan) from which, and at the discretion of the Committee, Executive Directors and other employees (including senior management) may be awarded share options under this scheme.

During the year, one Executive Director was awarded share options under this scheme, details of which are shown in the table on page 12.

Remuneration Committee Report *(continued)*

Service Contracts

The Executive Directors and the Non-Executive Directors are employed under individual employment arrangements or letters of appointment where appropriate. Details of these service contracts are set out below.

George Elliott was appointed Chairman for an initial term of 3 years commencing 28 May 2010.

	Contract date	Unexpired term	Normal notice period
George Elliott	28 May 2010	1 year – 28 May 2013	3 months
Bill Dobbie	17 June 2010	Not fixed term	6 months
Max Polyakov	17 June 2010	Not fixed term	6 months
Martin Higginson	17 June 2010	Not fixed term	3 months
Mark Doughty	17 June 2010	Not fixed term	6 months

Directors' Interests

The Directors' interests on the ordinary shares of the Company are set out in the Director's Report on page 12.

Directors' Emoluments

For Directors who held office during the course of the year, emoluments for the year ended 31 December 2011 were as follows:

	Salary/fees £	Benefits £	Bonus £	2011 total £	2010 total £
George Elliott	50,000	-	-	50,000	29,167
Bill Dobbie	180,000	-	45,000	225,000	267,500
Max Polyakov	150,051	-	31,250	181,301	425,000
Martin Higginson	15,000	-	-	15,000	13,750
Mark Doughty	150,000	-	25,000	175,000	102,581
Total	**545,051**	-	**101,250**	**646,301**	**837,998**

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company held by the Directors.

Accrued bonuses are included in the above and were approved by the Remuneration Committee.

Directors' interests in share options

Directors' share options are included within the Directors Report at page 12.

On behalf of the Remuneration Committee

George Elliott

21 March 2012

Statement of directors' responsibilities in respect of the directors' report and the financial statements

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

Company law requires the directors to prepare 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 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.

Independent auditor's report to the members of Cupid plc

We have audited the financial statements of Cupid plc for the year ended 31 December 2011 set out on pages 25 to 67. 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. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the 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; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

- We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

BMarks

B Marks (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
191 West George Street
Glasgow
G2 2LJ

21st MARCH 2012.

Consolidated Statement of Comprehensive Income

for year ended 31 December 2011

	Notes	2011 £000	2010 £000
Continuing operations:			
Revenue	*3*	53,552	25,710
Cost of sales		(38,430)	(18,134)
Gross profit		15,122	7,576
Administrative expenses		(8,127)	(3,354)
Operating profit		6,995	4,222
Analysed as:			
Earnings before interest, tax, depreciation, amortisation, share based payments, acquisition costs		11,341	5,815
Acquisition costs		(160)	(62)
Share based payments		(563)	(156)
Depreciation of plant and equipment		(255)	(81)
Amortisation of intangible assets		(3,368)	(1,294)
Finance income		52	30
Finance costs		-	(90)
Profit before taxation		7,047	4,162
Taxation charge	*7*	(1,382)	(1,028)
Profit for the period from continuing operations		5,665	3,134
Profit for the period and total comprehensive income all attributable to equity holders of the period		5,665	3,134
Basic and diluted earnings per share	*8*		
Basic (p per share)		7.14p	4.74p
Diluted (p per share)		6.91p	4.63p

The Company has elected to take the exemption under section 408 of the Companies Act 2006 to not present the parent company statement of comprehensive income.

Balance Sheets
at 31 December 2011

	Note	**Group**		**Company**	
		2011	2010	**2011**	2010
		£000	£000	**£000**	£000
Non-current assets					
Property, plant and equipment	*9*	**671**	206	**435**	123
Intangible assets	*10*	**12,509**	11,180	**6,285**	6,288
Investments	*11*	**-**	-	**6,676**	4,201
		13,180	11,386	**13,396**	10,612
Current assets					
Trade and other receivables	*13*	**9,611**	4,944	**9,831**	5,178
Cash and cash equivalents	*14*	**7,777**	6,044	**7,531**	6,013
		17,388	10,988	**17,362**	11,191
Total assets		**30,568**	22,374	**30,758**	21,803
Current liabilities					
Other interest-bearing loans and borrowings	*15*	**21**	33	**21**	33
Trade and other payables	*16*	**5,279**	6,970	**4,879**	6,815
Tax payable		**655**	1,207	**655**	1,207
		5,955	8,210	**5,555**	8,055
Non-current liabilities					
Other interest-bearing loans and borrowings	*15*	**13**	34	**13**	34
Trade and other payables	*16*	**-**	261	**-**	261
Deferred tax liabilities	*12*	**163**	577	**-**	-
		176	872	**13**	295
Total liabilities		**6,131**	9,082	**5,568**	8,350
Net assets		**24,437**	13,292	**25,190**	13,453
Equity attributable to equity holders of the parent					
Share capital	*18*	**2,028**	1,886	**2,028**	1,886
Share premium	*18*	**13,183**	8,275	**13,183**	8,275
Share options reserve	*18*	**1,161**	543	**1,161**	543
Retained earnings	*18*	**7,849**	2,588	**8,818**	2,749
Equity attributable to the equity holders of the parent		**24,221**	13,292	**25,190**	13,453
Non-controlling interests		**216**	-	-	-
Total Equity		**24,437**	13,292	**25,190**	13,453

These financial statements were approved by the board of directors on 21 March 2012 and were signed on its behalf by:

Mark Doughty
Director

Company registered number: SC368538

Statements of changes in equity

Group	Share capital £000	Share premium £000	Share options reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2010	1,420	-	126	(49)	1,497
Total comprehensive income for the year					
Profit for the year	-	-	-	3,134	3,134
Transactions with owners recorded directly in equity					
Dividends Paid	-	-	-	(497)	(497)
Charge for the year	-	-	156	-	156
Deferred tax on share based payments	-	-	261	-	261
Issue of ordinary shares	466	8,275	-	-	8,741
Balance at 31 December 2010	**1,886**	**8,275**	**543**	**2,588**	**13,292**
Total comprehensive income for the year					
Profit for the year	-	-	-	5,665	5,665
Transactions with owners recorded directly in equity					
Charge for the year	-	-	563	-	563
Dividends paid	-	-	-	(404)	(404)
Deferred tax on share based payments	-	-	55	-	55
Issue of ordinary shares	142	4,908	-	-	5,050
Balance at 31 December 2011	**2,028**	**13,183**	**1,161**	**7,849**	**24,221**

Company	Share capital £000	Share premium £000	Share options reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2010	1,420	-	126	(49)	1,497
Total comprehensive income for the year					
Profit for the year	-	-	-	3,295	3,295
Transactions with owners recorded directly in equity					
Dividends paid	-	-	-	(497)	(497)
Charge for the year	-	-	156	-	156
Deferred tax on share based payments	-	-	261	-	261
Issue of ordinary shares	466	8,275	-	-	8,741
Balance at 31 December 2010	**1,886**	**8,275**	**543**	**2,749**	**13,453**
Total comprehensive income for the year					
Profit for the year	-	-	-	6,473	6,473
Transactions with owners recorded directly in equity					
Dividends paid	-	-	-	(404)	(404)
Charge for the year	-	-	563	-	563
Deferred tax on share based payments	-	-	55	-	55
Issue of ordinary shares	142	4,908	-	-	5,050
Balance at 31 December 2011	**2,028**	**13,183**	**1,161**	**8,818**	**25,190**

Cash Flow Statements

for year ended 31 December 2011

	Note	**Group 2011 £000**	2010 £000	**Company 2011 £000**	2010 £000
Cash flows from operating activities					
Profit for the year		**5,665**	3,134	**6,473**	3,296
Adjustments for:					
Depreciation, amortisation and impairment		**3,623**	1,375	**2,119**	1,083
Financial income		**(52)**	(30)	**(52)**	(30)
Financial expense		**-**	90	**-**	90
Equity settled share-based payment expenses		**563**	156	**563**	156
Taxation		**1,382**	985	**1,725**	1,077
		11,181	5,710	**10,828**	5,672
Increase in trade and other receivables		**(4,667)**	(4,488)	**(4,468)**	(4,454)
(Decrease)/increase in trade and other payables		**(663)**	3,884	**(908)**	3,803
		5,851	5,106	**5,452**	5,021
Tax paid		**(2,465)**	-	**(2,407)**	-
Net cash from operating activities		**3,386**	5,106	**3,045**	5,021
Cash flows from investing activities					
Interest received		**52**	30	**52**	30
Acquisition of subsidiary, net of cash acquired	*2*	**(2,475)**	(4,190)	**(2,475)**	(4,190)
Acquisition of property, plant and equipment	*9*	**(657)**	(162)	**(440)**	(61)
Capitalised development expenditure	*10*	**(1,205)**	(393)	**(1,205)**	(393)
Acquisition of other intangible assets	*10*	**(1,981)**	(2,806)	**(2,072)**	(2,806)
Net cash from investing activities		**(6,266)**	(7,521)	**(6,140)**	(7,420)
Cash flows from financing activities					
Proceeds from the issue of share capital	*18*	**5,050**	8,741	**5,050**	8,741
Payment of finance lease liabilities		**(33)**	(26)	**(33)**	(26)
Dividends paid	*18*	**(404)**	(497)	**(404)**	(497)
Net cash from financing activities		**4,613**	8,218	**4,613**	8,218
Net increase in cash and cash equivalents		**1,733**	5,803	**1,518**	5,819
Cash and cash equivalents at 1 January 2011		**6,044**	241	**6,013**	194
Cash and cash equivalents at 31 December 2011	*14*	**7,777**	6,044	**7,531**	6,013

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Background and basis of preparation

Cupid plc is a company incorporated and domiciled in the UK. Its registered office is at 23 Manor Place, Edinburgh, EH3 7DX.

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

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual Statement of Comprehensive Income and related notes that form a part of these approved financial statements.

The financial statements of the Group and Company are presented in pounds sterling. All financial information has been rounded to the nearest thousand.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.Judgements made by the directors, in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the appropriate note.

The Company has applied the following:

Measurement convention

The financial statements are prepared on the historical cost basis.

Going Concern

The financial statements have been prepared on a going concern basis which the directors believe is appropriate for the following reasons.

The directors have prepared cashflow forecasts. These forecasts show that the Group expects to meet its liabilities from cash resources as they fall due for a period in excess of 12 months from date of approval of these financial statements.

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method, less any impairment losses.

Notes *(continued)*

1 **Accounting policies** *(continued)*

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-charging borrowings

Interest-charging borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest rate method, less any impairment losses.

Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. . Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- plant and equipment 3 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Intangible assets and goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and jointly controlled entities. Goodwill represents the difference between the cost of the acquisition and the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

Other intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally generated intangible asset can be recognised, development expenditure is expensed in the period as incurred.

Notes *(continued)*

1 Accounting policies *(continued)*

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses.

Internally generated assets are amortised over their estimate lifespan depending on each asset. The asset lifespan is estimated by management based on experience of similar assets in the past.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- intellectual property over estimated asset lifespan
- internally generated R&D over estimated asset lifespan

The estimated asset lifespans for current intangibles are between 2 and 10 years.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are aligned with the policies adopted by the Group. In the Company investments are carried at cost less any necessary impairment cost.

Acquisitions

The purchase method of accounting is used to account for the acquisitions of subsidiary undertakings. The cost of an acquisition including any deferred or contingent consideration is measured at fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date control passes to the group. Identifiable assets and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of assets and liabilities is recorded as goodwill.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquiree in the event of liquidation, either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date. All other non-controlling interests are measured at their fair value at the acquisition date.

Notes *(continued)*

1 Accounting policies *(continued)*

Impairment excluding deferred tax assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment; a financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the relevant cash-generating unit and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payments

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

The grant date fair value of options granted to employees/external contractors is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees/external contractors become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

Notes *(continued)*

1 Accounting policies *(continued)*

Share-based payments (continued)

Where the Company grants options over its own shares to the employees of its subsidiaries, it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity.

Revenue

Website membership income is recognised on a straight line basis over the length of the membership subscribed for.

Revenue from management contracts is recognised when the service is provided.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Adopted IFRS not yet applied

No IFRSs have been adopted early, however it is likely that any standards issued, but that are not yet effective, would only require changes in disclosure and not result in changes to the accounting policies for recognition and measurement. A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2011 and have not been applied in preparing these financial statements including: Amendments to IFRS 7 Financial Instruments: Disclosures (effective 1 January 2011), Amendments to IFRS 1 First-time Adoption of IFRS (effective 1 July 2011) and Amendment to IAS 12 Income Taxes (effective 1 January 2012).

Notes *(continued)*

1 Accounting policies *(continued)*

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and to select a suitable discount rate in order to calculate the present value. Full details of the assumptions used in the calculation are disclosed in note 10.

Valuation of intangible assets and fair value adjustment on acquisition

Note 2 summarises the fair value adjustments that were made in relation to the acquisitions during the year. Within these adjustments consideration has been given to the valuation of intangible assets including customer relationships and brands.

Share-based payments

The Group requires to make a charge to reflect the value of share-based equity-settled payments in the period. At each grant of options and balance sheet date, the Directors are required to consider whether there has been a change in the fair value of share options due to factors including number of expected participants.

Deferred tax

In future the Group is expected to have substantial tax deductions as a result of the future exercising of employee share options. A deferred tax asset has been created for these share options based on the share price at 31 December 2011.

Capitalisation of development expenditure

The Group capitalises development costs provided the conditions have been met. Consequently the Directors require to continually assess the commercial potential of each product in development and its useful life following launch.

Notes *(continued)*

2 Acquisitions of subsidiaries

On 15 December 2009, the Company acquired the trade and assets of Easy Date Limited and all of the ordinary shares in Easy Date Ukraine, Easy Date Dnepr, Easy Date (Ireland) Limited and Datingbiz Inc in return for the issue of £1,419,956 of share capital.

As the business combination arose from the transfer of interests in entities that are under common control of the shareholders, the assets and liabilities are recognised at the carrying amounts previously recorded.

The fair value adjustment relates wholly to internal development costs which were re-assessed at date of acquisition and the recognition of deferred taxation in connection with development costs.

Effect of acquisition

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

	Recognised values on acquisition £000
Acquiree's net assets at the acquisition date:	
Property, plant and equipment	52
Intellectual property	656
Internally generated R&D	342
Other intangible assets	41
Trade and other receivables	619
Cash and cash equivalents	75
Trade and other payables	(1,500)
Interest bearing loans and borrowings	(30)
Deferred taxation	(96)
Net identifiable assets and liabilities	159
Goodwill on acquisition	1,261
Consideration paid satisfied by issue of share capital	1,420

Goodwill has arisen on the acquisition because of the difference between the value of the shares in Easydate plc and the fair value of the net assets acquired and is supported by value attributed to the trade and company employees.

On 22 September 2010 the Company acquired 100% of the share capital of US based Cupid.com Inc from On Target Jobs Inc for £4.2 million. The Company acquired this business to allow expansion into new markets and realise the benefits from synergies.

Notes *(continued)*

2 Acquisition of subsidiaries*(continued)*

Effect of acquisition

	Pre-acquisition carrying amounts £000	Fair value adjustments £000	Recognised values on acquisition £000
Acquiree's net assets at the acquisition date:			
Intellectual property	-	1,759	1,759
Customer database	-	1,638	1,638
Contracts with suppliers and partners	-	100	100
Deferred taxation	-	(944)	(944)
Net identifiable assets and liabilities			2,553
Goodwill on acquisition			1,648
Consideration paid in cash			4,201

The company incurred expenses of acquisition totalling £62,000 which were expensed.

The acquisition contributed revenue of £0.7 million and EBITDA of nil in the period from acquisition to 31 December 2010

The consideration consisted of an initial cash payment of £4.2million plus a contingent consideration which was based on certain performance criteria. The directors believe these performance conditions will be satisfied so have taken this into account in calculating the fair value of the deferred consideration.

Goodwill has arisen and represents the value of synergies and the benefits of additional volume which will be realised by the Group on integration.

Other acquisitions:

Allegran

On 31 March 2010, the Company acquired the trade and assets of Allegran Ltd from Associated North Cliff Digital Group Limited for £3.3m of which £200,000 was initially settled in cash and £3,100,000 was deferred. At 31 December 2011 £300,000 remains deferred. This acquisition consisted of domain names, trademarks, customer database and computer equipment. The primary reason for the acquisition was to provide additional members and domain names to the Group's existing portfolio.

Goodwill arose on the acquisitions because of the difference between the consideration paid and the fair value of the net assets acquired. The goodwill represents synergies which will be realised on integration.

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

	Recognised values on acquisition £000
Plant and equipment	10
Web domains	877
Trademarks and copyright	439
Customer database	1,202
Contracts with suppliers and partners	100
Net identifiable assets and liabilities	2,628
Goodwill on acquisition	525
	3,153

Notes *(continued)*

2 Acquisition of subsidiaries *(continued)*

The Company incurred expenses on acquisition of £25,000 which were expensed.

The acquisition contributed revenue of £3.2 million and EBITDA of £1.7 million in the period from acquisition to 31 December 2010

The deferred consideration for the Allegran purchase has been discounted using an interest rate of 5.15%. This rate was selected based on benchmarking similar commercial borrowing rates available at March 2010 when the acquisition took place.

Goodwill represents the value of synergies which will be realised by the Group on integration.

Flirt.com

On 10 December 2010 the Company purchased the trade and assets of Flirt.com for £800,000 from Belamo Corp. The consideration was satisfied by cash. The primary reason for the acquisition was to provide additional members and domain names to the Group's existing portfolio.

The acquisition had the following effect on the Company's assets and liabilities.

	Recognised values on acquisition £000
Web domains	540
Trademarks and copyright	20
Customer database	240
Net identifiable assets and liabilities	800

The Company incurred expenses on acquisition of £6,000 which were expensed.

The acquisition contributed revenue of £50,000 and EBITDA of £nil in the period from acquisition to 31 December 2010

Online Liebe GmbH and WomenWeb GmbH

On 30 June 2011 the Company acquired 75% of the equity of Online Liebe GmbH and WomenWeb GmbH for £2.4million (€2.75million). The consideration was satisfied by cash.

The fair value of the identifiable assets, consisting of domain names, trademarks and copyright, customer databases and contracts with suppliers and partners was £864,000 leading to a Non controlling interest of £216,000. The company also has the option to acquire the remaining 25% for fair value.

Goodwill arose on the acquisition because of the difference between the cost of the acquisition and the book value of the net assets acquired. This represents the value of synergies that will be realised by the Group on integration.

Notes *(continued)*

2 Acquisition of subsidiaries *(continued)*

The acquisition had the following effect on the Company's assets and liabilities.

	Pre-acquisition carrying amounts £000	Fair value adjustments £000	Recognised values on acquisition £000
Plant and equipment	-	63	63
Web domains	-	378	378
Trademarks and copyright	-	25	25
Customer database	-	354	354
Contracts with suppliers and partners	-	126	126
Net debtors and creditors		100	100
Deferred taxation		(172)	(172)
Net identifiable assets and liabilities			874
Goodwill on acquisition			1,801
Non-controlling interest			(216)
Consideration paid in cash			2,459

The acquisition contributed revenue of £312,000 and loss of £95,000 in the period from acquisition to 31 December 2011.

The company incurred expenses on acquisition of £85,000 which were expensed.

Brazil website

On 19 August 2011 the Company acquired the trade and assets of AondeNamoro for USD750,000. The initial consideration was satisfied by cash of USD500,000 with a further USD250,000 payable subject to achieving sales targets.

Goodwill arose on the acquisition because of the difference between the cost of the acquisition and the book value of the net assets acquired. This represents the value of synergies that will be realised by the Group on integration.

The acquisition had the following effect on the Company's assets and liabilities.

	Recognised values on acquisition £000
Web domains	100
Trademarks and copyright	50
Customer database	225
Contracts with suppliers and partners	50
Goodwill on acquisition	55
	480

Notes *(continued)*

2 Acquisition of subsidiaries *(continued)*

The acquisition contributed revenues of £103,000 and EBITDA of £76,000 in the period from acquisition to 31 December 2011.

The company incurred expenses on acquisition of £10,000 which were expensed.

Other acquisitions

On 4th February 2011, the company acquired the business of Indiandating.com for £93,000 ($150,000). A further $50,000, was paid in August 2011.

On 3rd May 2011, the company acquired the domain name Cupidon.com for £180,000 ($300,000).

3 Segmental Analysis

The chief operating decision-maker has been identified as the Chief Executive Officer ("CEO") of the Company. The CEO reviews the Group's internal reporting in order to assess performance and to allocate resources. The Company has determined its operating segments based on these reports. The Group currently has three reportable segments, which are based upon geographical territories. The location of the user is the basis for determining the segment.

The three segments are:

- **Established Markets** (UK, Australia, New Zealand, Ireland)
- **New Markets** (USA, Canada, France, Italy, Spain, Germany plus any newly entered countries)
- **Developing Territories** (Brazil, India)

Each of the three segments has different performance characteristics within its Key Performance Indicators as they are at different levels of maturity and critical mass for the Group. The CEO transitioned to this basis of assessing progress from the previous basis due to the volume of countries in which the Group operates increasing, and the characteristics being better aligned by maturity rather than international region. The 2010 numbers have been restated to ensure they are presented on a consistent basis with the current year.

Information regarding the operation of the reportable segments is included below. The CEO assesses the performance of the business at the operating segment level based on revenue and revenue less direct marketing costs, which gives a measure of the effectiveness and contribution after deduction of direct marketing costs.

The segment information is prepared using accounting policies consistent with those of the Group as a whole.

Therefore none of the Group's assets and liabilities are segmental assets and liabilities and are all unallocated for segmental disclosure purposes. Segmental assets and liabilities are not presented to the CEO and on this basis the Group has not disclosed details of segmental assets and liabilities.

All segments are continuing operations. No customer accounts for more than 10% of external revenues. There are no inter-segment transactions.

Notes *(continued)*

3 Segmental Analysis *(continued)*

2011	Established Markets £000	New Markets £000	Developing Territories £000	Total £000
Revenue	30,511	22,249	792	53,552
Direct marketing costs	(11,832)	(17,622)	(465)	(29,919)
Revenue less direct marking costs	18,679	4,627	327	23,633
Other direct costs				(8,511)
Gross profit				15,122
Operating expenses (excluding depreciation, amortisation, share based payments and acquisition costs)				(3,781)
Adjusted EBITDA				11,341
Depreciation, amortisation, share based payments and acquisition costs				(4,346)
Operating profit				6,995
Finance income				52
Profit before tax				7,047

2010	Established Markets £000	Restated New Markets £000	Developing Territories £000	Total £000
Revenue	22,094	3,466	150	25,710
Direct marketing costs	(10,245)	(3,474)	(121)	(13,840)
Revenue less direct marking costs	11,849	(8)	29	11,870
Other direct costs				(4,294)
Gross profit				7,576
Operating expenses (excluding depreciation, amortisation, share based payments and acquisition costs)				(1,761)
Adjusted EBITDA				5,815
Depreciation, amortisation, share based payments and acquisition costs				(1,593)
Operating profit				4,222
Finance costs				(60)
Profit before tax				4,162

The CEO assesses the performance of the Operating Segments before deduction of Other Direct Costs. Other Direct Costs are shown above to provide reconciliation to reported Gross Profit.

Revenues generated in UK for the year ended 31 December 2011 were £22.2 million (2010: £18.3 million).

Notes *(continued)*

3 Expenses and auditors' remuneration

Included in profit are the following:

	2011	2010
	£000	£000
Depreciation of tangible assets:		
Owned assets	**255**	81
Amortisation of intangibles	**3,368**	1,294

Auditors' remuneration:

	2011	2010
	£000	£000
Amounts receivable by auditors and their associates in respect of:		
Audit of the company	**36**	35
Audit of subsidiaries	**-**	-
Total audit services	**36**	35
Reporting required by law or regulation provided by the auditors (half year review)	**14**	13
Tax compliance services	**3**	3
Total relating to tax	**3**	3
Other non audit services not covered above	**4**	100
Services relating to corporate finance transactions (IPO)	**-**	246
Total	**57**	397

Notes *(continued)*

4 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	Group 2011	Group 2010
Support	**77**	51
Technical	**96**	56
Marketing	**177**	102
Administration	**29**	17
Directors	**5**	5
	384	231

The aggregate payroll costs of these persons were as follows:

	Group 2011 £000	Group 2010 £000
Wages and salaries	**4,060**	2,457
Social security costs	**254**	115
	4,314	2,572

5 Directors' remuneration

	2011 £000	2010 £000
Directors' emoluments	**316**	192
Amounts paid to third parties in respect of directors' services	**330**	666

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £225,000 *(2010: £429,000).*

	Number of directors	
	2011	**2010**
The number of directors who exercised share options was	**2**	**1**
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	**Nil**	**Nil**

There were no directors' advances, credits and guarantees (Section 413 Companies Act 2006).

Directors' emoluments are included within the Remuneration Committee report on page 22.

Notes *(continued)*

6 Taxation

Recognised in the income statement

	2011 £000	2010 £000
Current tax expense		
Current year	2,191	1,193
Adjustments for prior years	(278)	37
Current tax expense	1,913	1,230
Deferred tax credit	(531)	(202)
Deferred tax credit	(531)	(202)
Total tax expense	1,382	1,028

Tax recognised directly in equity (ie, not in comprehensive income)

	2011 £000	2010 £000
Current tax recognised directly in equity	-	-
Deferred tax recognised directly in equity	55	261
Total tax recognised directly in equity	55	261

Reconciliation of effective tax rate

	2011 £000	2010 £000
Profit for the year	5,665	3,134
Total tax expense	1,382	1,028
Profit before taxation	7,047	4,162
Tax using the UK corporation tax rate of 26.5% *(2010: 28%)*	1,867	1,165
Non-deductible expenses	98	28
(Over)/under provided in prior years	(278)	37
Share option relief	(404)	(174)
Other differences	99	(28)
Total tax expense	1,382	1,028

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of four years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010, a reduction to 26% was substantively enacted on 29 March 2011, effective from 1 April 2011 and a further reduction to 25% was substantively enacted on 5 July 2011 and will be effective from 1 April 2012. This will reduce the company's future tax charge accordingly. It has not yet been possible to quantify the full anticipated effect of the announced further 1% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liabilities accordingly.

Notes *(continued)*

8 Earnings per share

	2011	2010
Basic		
Profit attributable to equity holders of the company (£000)	**5,665**	3,134
Weighted average of number of ordinary shares in issue (thousands)	**79,299**	66,144
Basic earnings per share (p per share)	**7.14p**	4.74p
Diluted		
Profit attributable to equity holders of the company (£000)	**5,665**	3,134
Weighted average of number of ordinary share in issue (thousands)	**79,299**	66,144
Adjustments for: share options (thousands)	**2,632**	1,519
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**81,931**	67,663
Diluted earnings per share (p per share)	**6.91p**	4.63p

Basic earnings per share

The calculation of basic earnings per share at 31 December 2011 was based on the profit attributable to ordinary shareholders of £5,665,000 *(2010: £3,134,000)* and a weighted average number of ordinary shares outstanding of 79,299,393 *(2010:* 66,143,806*)* calculated as follows:

Weighted average number of ordinary shares

	Note	2011 No	2010 No
Issued ordinary shares at start of year	*18*	**75,445,667**	1,419,956
Effect of share split		**-**	55,378,404
Effect of share options exercised		**759,102**	897,957
Effect of shares issued in June 2010		**-**	8,447,489
Effect of shares issued in April 2011		**3,094,624**	-
Weighted average number of ordinary shares at 31 December		**79,299,393**	66,143,806

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2011 was based on profit attributable to ordinary shareholders of £5,665,000 *(2010: £3,134,000)* and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 2,631,538 *(2010: 1,519,190)*, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2011 No	2010 No
Weighted average number of ordinary shares (basic)	**79,299,393**	66,143,806
Effect of share options on issue	**2,631,538**	1,519,190
Weighted average number of ordinary shares (diluted) at 31 December	**81,930,931**	67,662,996

The average market value of the company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

Notes *(continued)*

9 Property, plant and equipment – Group

	Plant and equipment £000
Cost	
Balance at 1 January 2010	213
Acquisitions through business combinations	10
Additions	218
Balance at 31 December 2010	441
Balance at 1 January 2011	441
Acquisitions through business combinations (note 2)	63
Additions	657
Balance at 31 December 2011	1,161
Depreciation and impairment	
Balance at 1 January 2010	154
Depreciation charge for the period	81
Balance at 31 December 2010	235
Balance at 1 January 2011	235
Depreciation charge for the year	255
Balance at 31 December 2011	490
Net book value	
At 31 December 2009 and 1 January 2010	59
At 31 December 2010	206
At 31 December 2011	**671**

Leased plant and machinery

At 31 December 2011 the net carrying amount of leased plant and machinery was £52,000 *(2010: £64,000)*. The leased equipment secures lease obligations (see note 15).

Notes *(continued)*

9 Property, plant and equipment – Company *(continued)*

Cost	**£000**
Balance at 1 January 2010	183
Other acquisitions	127
Balance at 31 December 2010	310
Balance at 1 January 2011	310
Additions	440
Balance at 31 December 2011	750
Depreciation and impairment	
Balance at 1 January 2010	144
Depreciation charge for the period	43
Balance at 31 December 2010	187
Balance at 1 January 2011	187
Depreciation charge for the year	128
Balance at 31 December 2011	315
Net book value	
At 1 January 2010	39
At 31 December 2010 and 1 January 2011	123
At 31 December 2011	**435**

Leased plant and machinery

At 31 December 2011 the net carrying amount of leased plant and machinery was £52,000 *(2010: £64,000)*. The leased equipment secures lease obligations (see note 15).

Notes *(continued)*

10 Intangible assets – Group

	Internally generated R&D £000	Goodwill £000	Intellectual property £000	Customer databases £000	Total £000
Cost					
Balance at 1 January 2010	396	1,261	914	-	2,571
Acquisitions through business combinations	-	2,173	3,835	3,080	9,088
Other acquisitions – internally developed	886	-	-	-	886
Other acquisitions – externally purchased	-	-	230	58	288
Balance at 31 December 2010	1,282	3,434	4,979	3,138	12,833
Acquisitions through business combinations (note 2)	-	1,856	877	579	3,312
Other acquisitions – internally developed	1,205	-	-	-	1,205
Other acquisitions – externally purchased	-	-	180	-	180
Balance at 31 December 2011	2,487	5,290	6,036	3,717	17,530
Amortisation and impairment					
Balance at 1 January 2010	54	-	306	-	360
Amortisation for the period	203	-	416	674	1,293
Balance at 31 December 2010	257	-	722	674	1,653
Balance at 1 January 2011	257	-	722	674	1,653
Amortisation for the year	641	-	1,114	1,613	3,368
Balance at 31 December 2011	898	-	1,836	2,287	5,021
Net book value					
At 1 January 2010	342	1,261	608	-	2,211
At 31 December 2010 and 1 January 2011	1,025	3,434	4,257	2,464	11,180
At 31 December 2011	**1,589**	**5,290**	**4,200**	**1,430**	**12,509**

Notes *(continued)*

10 Intangible assets – Group *(continued)*

Amortisation charge

The amortisation charge is recognised in the following line item in the consolidated statement of comprehensive income:

	2011	2010
	£000	£000
Amortisation of intangible assets	**3,368**	1,293

No impairment charges have been booked.

Impairment testing

Goodwill considered significant in comparison to the Group's total carrying amount of such assets have been allocated to cash generating units or groups of cash generating units as follows:

	Goodwill	Goodwill
	2011	2010
	£000	£000
Established markets	**1,786**	1,786
New markets	**3,449**	1,648
Developing markets	**55**	-
	5,290	3,434

The recoverable amount of goodwill has been calculated with reference to its value in use. The key assumptions of this calculation are shown below:

	2011	2010
Period on which management approved forecasts are based	**3 years**	3 years
Growth rate applied beyond approved forecast period to revenues and costs	**5%**	5%
Discount rate	**15%**	15%

Forecasts used for the 2012 to 2014 years reflect internal management forecasts for the Group based on past performance and the experience of growth rates. The growth rates used in value in use calculation beyond 2013 reflect the average growth rate experienced by the online dating industry in North America and the UK. The Group itself is growing currently at a faster rate than the rest of the industry.

Based on an analysis of the impairment calculation's sensitivities to changes in key parameters (growth rate, discount rate and pre-tax cash flows) there are no probable scenarios where the CGU's recoverable amounts would fall below their carrying amount.

Notes *(continued)*

10 Intangible assets – Company *(continued)*

	Internally generated R&D £000	Goodwill £000	Intellectual property £000	Customer databases £000	Total £000
Cost					
Balance at 1 January 2010	396	1,261	914	-	2,571
Acquisitions through business combinations	-	525	1,976	1,442	3,943
Other acquisitions – internally developed	886	-	-	-	886
Other acquisitions – externally purchased	-	-	230	58	288
Balance at 31 December 2010	1,282	1,786	3,120	1,500	7,688
Other acquisitions – internally developed	1,205	-	-	-	1,205
Other acquisitions – externally purchased	-	55	493	235	783
Balance at 31 December 2011	2,487	1,841	3,613	1,735	9,676
Amortisation and impairment					
Balance at 1 January 2010	54	-	306	-	360
Amortisation for the period	203	-	368	469	1,040
Balance at 31 December 2010	257	-	674	469	1,400
Amortisation for the year	641	-	557	793	1,991
Balance at 31 December 2011	898	-	1,231	1,262	3,391
Net book value					
At 1 January 2010	342	1,261	608	-	2,211
At 31 December 2010 and 1 January 2011	1,025	1,786	2,446	1,031	6,288
At 31 December 2011	**1,589**	**1,841**	**2,382**	**473**	**6,285**

Notes *(continued)*

10 Intangible assets – Company *(continued)*

Amortisation charge

The amortisation charge is recognised in the following line items in the income statement:

	2011 £000	2010 £000
Amortisation of intangible assets	**1,991**	1,040

No impairment charges have been booked.

Impairment testing

Goodwill considered significant in comparison to the Company's total carrying amount of such assets have been allocated to cash generating units or groups of cash generating units as follows:

	Goodwill 2011 £000	Goodwill 2010 £000
Established markets	**1,841**	1,786
	1,841	1,786

The recoverable amount of goodwill has been calculated with reference to its value in use. The key assumptions of this calculation are shown below:

	2011	*2010*
Period on which management approved forecasts are based	**3 years**	*3 years*
Growth rate applied beyond approved forecast period	**5%**	*5%*
Discount rate	**15%**	*15%*

Forecasts used for the 2012 to 2014 years reflect internal management forecasts for the Group based on past performance and the experience of growth rates. The growth rates used in value in use calculation beyond 2013 reflect the average growth rate experienced by the online dating industry in the UK. The Group itself is growing currently at a faster rate than the rest of the industry.

Based on an analysis of the impairment calculation's sensitivities to changes in key parameters (growth rate, discount rate and pre-tax cash flows) there is no probable scenario where the CGU's recoverable amount would fall below its carrying amount.

Notes *(continued)*

11 Investments in subsidiaries – Company

	£000
At start of year	4,201
Acquisition of Online Liebe GmbH and WomenWeb GmbH	2,475
At 31 December 2011	6,676

The Company has the following investments in subsidiaries:

	Country of Incorpor-ation	Class of shares held	Ownership 2011	2010
Group and Company				
Easydate Ukraine	Ukraine	Ordinary	**100%**	100%
Easydate Dnepro	Ukraine	Ordinary	**100%**	100%
Datingbiz Inc	USA	Ordinary	**100%**	100%
Easydate (Ireland) Ltd	Ireland	Ordinary	**100%**	100%
Cupid Inc	USA	Ordinary	**100%**	100%
Hooya Digital Ltd	Cyprus	Ordinary	**100%**	-
Online Liebe GmbH	Germany	Ordinary	**75%**	-
WomenWeb GmbH	Germany	Ordinary	**75%**	-

12 Deferred tax assets and liabilities

Group	Share based payments £000	Total deferred tax assets £000	Intangible assets £000	Total deferred tax liability £000	Net deferred tax liabilities £000
At 1 January 2010	-	-	96	96	96
Credit to the income statement	(42)	(42)	(160)	(160)	(202)
Credit to equity	(261)	(261)	-	-	(261)
Recognised on acquisition	-	-	944	944	944
At 31 December 2010	(303)	(303)	880	880	577
Credit to the income statement	(142)	(142)	(389)	(389)	(531)
Credit to equity	(55)	(55)	-	-	(55)
Recognised on acquisition	-	-	172	172	172
At 31 December 2011	(500)	(500)	663	663	163

Notes *(continued)*

12 Deferred tax assets and liabilities *(continued)*

Company	Share based payments £000	Total deferred tax assets £000	Tangible assets £000	Total deferred tax liability £000	Net deferred tax liabilities £000
At 1 January 2010	-	-	96	96	96
Credit to the income statement	(42)	(42)	(68)	(68)	(110)
Credit to equity	(261)	(261)	-	-	(261)
At 31 December 2010	(303)	(303)	28	28	(275)
Credit/charge to the income statement	(142)	(142)	12	12	(130)
Credit to equity	(55)	(55)	-	-	(55)
At 31 December 2011	(500)	(500)	40	40	(460)

The deferred tax on acquired assets arises from intangible assets acquired through the acquisition of 100% of the share capital of Cupid Inc and 75% of Online Liebe GmbH and WomenWeb GmbH on which amortisation is charged but on which there are no capital allowances or other tax deductions available.

The deferred tax in relation to share based remuneration arises from the anticipated future tax relief on the exercise of share options.

13 Trade and other receivables

	Group 2011 £000	2010 £000	Company 2011 £000	2010 £000
Trade receivables due from related parties	**2,428**	782	**2,471**	782
Other trade receivables	**4,989**	3,425	**4,707**	3,394
Prepayments and other debtors	**2,194**	737	**2,193**	727
Deferred tax asset	-	-	**460**	275
	9,611	4,944	**9,831**	5,178

There are no balances due after more than one year.

14 Cash and cash equivalents

	Group 2011 £000	2010 £000	Company 2011 £000	2010 £000
Cash and cash equivalents	**7,777**	6,044	**7,531**	6,013

Notes *(continued)*

15 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group and Company's exposure to interest rate and foreign currency risk, see note 19.

	Group 2011 £000	2010 £000	Company 2011 £000	2010 £000
Non-current liabilities				
Finance lease liabilities	**13**	34	**13**	34
Current liabilities				
Current portion of finance lease liabilities	**21**	33	**21**	33

Terms and debt repayment schedule

	Face value 2011 £000	Carrying amount 2011 £000	Face value 2010 £000	Carrying amount 2010 £000
Finance lease liabilities	**34**	**34**	67	67

Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Minimum lease payments 2011 £000	Interest 2011 £000	Principal 2011 £000	Minimum lease payments 2010 £000	Interest 2010 £000	Principal 2010 £000
Less than one year	**25**	**4**	**21**	41	8	33
Between one and five years	**14**	**1**	**13**	38	4	34
More than five years	-	-	-	-	-	-
	39	**5**	**34**	79	12	67

Company	Minimum lease payments 2011 £000	Interest 2011 £000	Principal 2011 £000	Minimum lease payments 2010 £000	Interest 2010 £000	Principal 2010 £000
Less than one year	**25**	**4**	**21**	41	8	33
Between one and five years	**14**	**1**	**13**	38	4	34
More than five years	-	-	-	-	-	-
	39	**5**	**34**	79	12	67

Notes *(continued)*

16 Trade and other payables

	Group 2011 £000	2010 £000	Company 2011 £000	2010 £000
Current				
Trade payables due to related parties	**-**	-	**191**	83
Other trade payables	**1,431**	1,848	**1,240**	1,848
Non-trade payables and accrued expenses	**3,848**	5,122	**3,448**	4,884
	5,279	6,970	**4,879**	6,815
Non-current				
Non-trade payables and accrued expenses	**-**	261	**-**	261

17 Employee benefits

Share-based Payments

Cupid plc has established an employee option plan, designed to provide a long-term incentive for employees and Directors of Cupid plc. It allows them to participate in Cupid plc's future growth and provides them with an incentive to increase profitability and returns to shareholders.

The share options hold no voting or dividend rights, and are not transferable.

Movements in the number of share options held by Directors, employees, former employees and consultants are as follows:

	Group 2011 No.	2010 No.	Company 2011 No.	2010 No.
Opening balance	**5,512,600**	97,156	**5,512,600**	97,156
Granted prior to 1/40 share split on 17 June 2010	**-**	13,600	**-**	13,600
Impact of splitting shares 1 for 40	**-**	4,319,484	**-**	4,319,484
Granted after 1/40 share split on 17 June 2010	**-**	3,063,000	**-**	3,063,000
Granted during the year	**3,829,335**	-	**3,829,335**	-
Exercised during the year	**(1,114,987)**	(1,980,640)	**(1,114,987)**	(1,980,640)
Lapsed during the year	**(299,240)**	-	**(299,240)**	-
Closing balance	**7,927,708**	5,512,600	**7,927,708**	5,512,600

Notes *(continued)*

17 Employee benefits *(continued)*

Details of share options held by Directors, employees and consultants outstanding as at the end of year:

Grant Date	Expiry Date	Exercise Price (£)	Fair Value at Grant Date (£)	Vesting Date	Group 2011	Group 2010	Company 2011	Company 2010
15/12/09	15/06/20	0.1625	0.08	15/12/10	99,680	249,160	99,680	249,160
15/12/09	15/06/20	0.1625	0.08	15/12/11	49,800	199,240	49,800	199,240
15/12/09	14/12/19	0.03	0.08	15/12/10	149,440	747,360	149,440	747,360
15/12/09	14/12/19	0.03	0.08	15/12/11	585,320	635,120	585,320	635,120
15/12/09	18/03/20	0.03	0.08	19/03/11	-	37,360	-	37,360
15/12/09	18/03/20	0.03	0.08	19/03/12	37,360	37,360	37,360	37,360
14/06/10	13/06/20	0.1625	0.08	14/06/11	-	181,360	-	181,360
14/06/10	13/06/20	0.1625	0.08	14/06/12	181,333	181,320	181,333	181,320
14/06/10	13/06/20	0.1625	0.08	14/06/13	181,334	181,320	181,334	181,320
22/09/10	22/09/20	0.94	0.13	22/09/11	421,106	603,334	421,106	603,334
22/09/10	22/09/20	0.94	0.13	22/09/12	570,000	603,333	570,000	603,333
22/09/10	22/09/20	0.94	0.13	22/09/13	570,000	603,333	570,000	603,333
17/12/10	17/12/20	1.09	0.24	17/12/11	17,667	17,667	17,667	17,667
17/12/10	17/12/20	1.09	0.24	17/12/12	17,667	17,667	17,667	17,667
17/12/10	17/12/20	1.09	0.24	17/12/13	17,666	17,666	17,666	17,666
17/12/10	17/12/20	1.09	0.24	17/12/11*	1,200,000	1,200,000	1,200,000	1,200,000
03/06/11	03/06/21	1.76	0.26	03/06/12	1,276,445	-	1,276,445	-
03/06/11	03/06/21	1.76	0.26	03/06/13	1,276,445	-	1,276,445	-
03/06/11	03/06/21	1.76	0.26	03/06/14	1,276,445	-	1,276,445	-
				Total	**7,927,708**	**5,512,600**	**7,927,708**	**5,512,600**

Conditions of the options

Each option will convert into 1 ordinary share. The vesting of options will occur in tranches according to the vesting date in the above tables. The options marked * only vest if the weighted average share price of the company exceeds £1.50 for 3 consecutive months.

Notes *(continued)*

17 Employee benefits *(continued)*

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted with the exception of those granted on 17 December 2010. The fair value of employee share options is measured using a Black-Scholes model. Those granted on 17 December 2010 have been valued using the Monte Carlo model. Measurement inputs and assumptions are as follows:

Grant date 15 December 2009

Fair value at measurement date	£3.12
Weighted average share price	£11.44
Exercise price	£1.20
Expected volatility	50%
Option life	10 years
Expected dividends	10%
Risk-free interest rate (based on national government bonds)	1%

Grant date 14 June 2010

Fair value at measurement date	£3.12
Weighted average share price	£11.44
Exercise price	£6.50
Expected volatility	50%
Option life	10 years
Expected dividends	10%
Risk-free interest rate (based on national government bonds)	1%

Grant date 22 September 2010

Fair value at measurement date	£0.13
Weighted average share price	£0.94
Exercise price	£0.94
Expected volatility	50%
Option life	10 years
Expected dividends	10%
Risk-free interest rate (based on national government bonds)	1%

Grant date 17 December 2010

Fair value at measurement date	£0.24
Weighted average share price	£1.09
Exercise price	£1.09
Expected volatility	40%
Option life	10 years
Expected dividends	5%
Risk-free interest rate (based on national government bonds)	1%

Grant date 3 June 2011

Fair value at measurement date	£0.26
Weighted average share price	£1.76
Exercise price	£1.76
Expected volatility	30%
Option life	10 years
Expected dividends	5%
Risk-free interest rate (based on national government bonds)	1%

Notes *(continued)*

17 Employee benefits *(continued)*

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information..

The total expenses recognised within the profit and loss account and charged to share options reserve for the year from share-based payments are as follows:

	2011 £000	2010 £000
Equity settled share based payment expense	**563**	155

18 Capital and reserves – Group and Company

Share capital

	Number
At 1 January 2010	56,798,360
Issued for cash at IPO	16,666,667
Issued as consideration for acquisition (£1 shares)	1,980,640
In issue at 31 December 2010 – fully paid	75,445,667
Issued on placing of shares	4,545,454
Issued on exercise of share options	1,114,987
In issue at 31 December 2011	81,106,108

	2011 £	2010 £
Authorised		
A Ordinary shares of 2.5p	**2,514,856**	2,514,856
Allotted, called up and fully paid		
A Ordinary shares of 2.5p	**2,027,653**	1,886,142
Shares classified in shareholders funds	**2,027,653**	1,886,142

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital. The Board of Directors also monitors the level of dividends to ordinary shareholders

Notes *(continued)*

18 Capital and reserves – Group and Company *(continued)*

4,545,454 shares were issued on placing in April 2011

1,114,987 shares were issued as a result of staff exercise of options during the year.

The result is that the Company has 81,106,108 ordinary shares issued and fully paid up as at the closing Balance Sheet date of 31 December 2011. As at that date the authorised share capital was 100,594,222 shares of 2.5p.

No further new ordinary shares have been issued since the end of the financial year to the date of this report

Share premium account – Group and Company

	£000
At 1 January 2011	8,275
Share premium on placing of shares	4,886
Share premium on exercise of options	185
Expenses of placing	(163)
At 31 December 2011	13,183

Reserves

Cupid plc has two reserves other than share capital, namely retained earnings and share options reserve. Foreign exchange differences are considered to be insignificant and are charged to Statement of Comprehensive Income.

Group	Share options reserve £000	Retained earnings £000	Total £000
At 31 December 2009	126	(49)	77
Charge for period	417	2,637	3,054
At 31 December 2010	543	2,588	3,131
Charge for year	618	5,261	5,879
At 31 December 2011	1,161	7,849	9,010

Company	Share options reserve £000	Retained earnings £000	Total £000
At 31 December 2009	126	(49)	77
Charge for period	417	2,798	3,215
At 31 December 2010	543	2,749	3,292
Charge for year	618	6,069	6,687
At 31 December 2011	1,161	8,818	9,979

Notes *(continued)*

18 Capital and reserves – Group and Company *(continued)*

Dividends

The following dividends were recognised during the period:

	2011 £000	2010 £000
2010 final dividend	404	-
Interim dividend prior to listing, paid May 2010	-	497
Total	404	497

The proposed final dividend for 2011 is subject to approval by the shareholders at the Annual General Meeting and has not been included as a liability in these accounts.

19 Risk management

(a) Fair values of financial instruments

The financial instruments held by the Group and Company are categorised in the following tables:

Group

Assets as per statement of financial position

	2011		2010	
	Loans and receivables £000	Total £000	Loans and receivables £000	Total £000
Trade receivables	7,417	7,417	4,207	4,207
Cash and cash equivalents	7,777	7,777	6,044	6,044
Total	15,194	15,194	10,251	10,251

Company

	2011		2010	
	Loans and receivables £000	Total £000	Loans and receivables £000	Total £000
Trade receivables	7,178	7,178	4,176	4,176
Cash and cash equivalents	7,531	7,531	6,013	6,013
Total	14,709	14,709	10,189	10,189

Cash and cash equivalents held by the Group have an original maturity of three months or less. The carrying amount of these assets is equivalent to their fair value.

Notes *(continued)*

19 Risk management *(continued)*

Group

	2011 Other financial liabilities at amortised cost £000	**2011** Total £000	2010 Other financial liabilities at amortised cost £000	2010 Total £000
Borrowings/finance leases	**34**	**34**	67	67
Trade payables	**1,431**	**1,431**	1,848	1,848
Contingent consideration	**160**	**160**	261	261
Deferred consideration	**300**	**300**	1,382	1,382
Total	**1,925**	**1,925**	3,558	3,558

Company

	2011 Other financial liabilities at amortised cost £000	**2011** Total £000	2010 Other financial liabilities at amortised cost £000	2010 Total £000
Borrowings/finance leases	**34**	**34**	67	67
Trade payables	**1,431**	**1,431**	1,931	1,931
Contingent consideration	**-**	**-**	261	261
Deferred consideration	**-**	**-**	1,382	1,382
Total	**1,465**	**1,465**	3,641	3,641

The trade and other payables presented excludes other taxes and social security costs as statutory liabilities do not fall under the definition of a financial instrument. Trade and other payables are detailed in note 16.

Fair value hierarchy

IFRS 7 requires all financial instruments carried at fair value to be analysed under the following levels:

Level 1: quoted prices (adjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from market data)

Level 3: inputs for the asset or liability that are not based on observable market data

The Group has not entered into any derivative financial instruments in the current or preceding periods.

Notes *(continued)*

19 Risk management *(continued)*

Fair value of financial assets and financial liabilities

Financial assets

	2011		2010	
	Book value £000	**Fair value £000**	Book value £000	Fair value £000
Cash and cash equivalents	7,777	7,777	6,044	6,044
Total financial assets	7,777	7,777	6,044	6,044

Financial liabilities

	2011		2010	
	Book value £000	**Fair value £000**	Book value £000	Fair value £000
Interest bearing finance leases	34	34	67	67
Total financial liabilities	34	34	67	67

The fair value of the current trade and other receivables and the current trade and other payable with maturity of less than one year are deemed to approximate to the book value

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is receivable on demand. Where it is not receivable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Interest-bearing borrowings

Fair value, which after initial recognition is determined for disclosure purposes only, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

There is no material difference between the fair value and carrying amount of the company's finance leases.

Notes *(continued)*

19 Risk management *(continued)*

Fair values

The fair values for each class of financial assets and financial liabilities together with their carrying amounts shown in the balance sheet are as follows:

Group	**Fair value carrying amount 2011 £000**	Fair value carrying amount 2010 £000
IAS 39 categories of financial instruments		
Cash and cash equivalents (note 14)	**7,777**	6,044
Trade receivables (note 13)	**7,417**	4,207
Total financial assets	**15,194**	10,251

	Fair value carrying amount 2011 £000	Fair value carrying amount 2010 £000
Other interest-bearing loans and borrowings (note 15)	**34**	67
Trade payables (note 16)	**1,431**	1,848
Total financial liabilities measured at amortised cost	**1,465**	1,915
Total financial instruments	**13,729**	8,336

(b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers including merchant provider companies.

The majority of revenue is collected using merchant providers including Safecharge, Barclaycard, Global Collect and Paypal. New merchant providers are credit checked prior to being utilised.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was trade receivables being the total of the carrying amount of loans and receivables shown above. The main risk within this balance is the trade receivables.

Notes *(continued)*

19 Risk management *(continued)*

(b) Credit risk *(continued)*

The maximum exposure to credit risk for trade receivables at the balance sheet date by geographic region was:

	2011 £000	2010 £000
UK	**7,179**	4,169
Ukraine	**35**	38
Germany	**143**	-
Brazil	**60**	-
	7,417	4,207

The maximum exposure to credit risk for trade receivables at the balance sheet date by type of counterparty was:

	2011 £000	2010 £000
Third party receivables	**4,989**	3,425
Related parties	**2,428**	782
	7,417	4,207

Credit quality of financial assets and impairment losses

The aging of third party trade receivables at the balance sheet date was:

	Gross 2011 £000	Impairment 2011 £000	Gross 2010 £000	Impairment 2010 £000
Not past due	**3,348**	-	2,763	-
Past due 0-30 days	**1**	-	79	-
Past due 31-120 days	**6**	-	348	-
More than 120 days	**1,634**	-	235	-
	4,989	-	3,425	-

None of the trade debtor balances are secured.

Notes *(continued)*

19 Risk management *(continued)*

(c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	Carrying amount £000	2011 Contractual cash flows £000	1 year or less £000	1 to <2years £000	2 to <5years £000
Non-derivative financial liabilities					
Finance lease liabilities	34	39	25	14	-
Trade payables	1,431	1,431	1,431	-	-
	1,465	1,470	1,456	14	-

The Group seeks to manage financial risk to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash safely and profitably. The Group reviews its cash flow requirements on a monthly basis.

(d) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

The Group aims to minimise exposure to foreign exchange by keeping the majority of balances and trade in sterling.

As the international revenues and costs of the Group grow further policies and procedures to minimise currency risk will be implemented.

The Group has no variable interest debt and is therefore not exposed to interest rate risk.

Market risk - Foreign currency risk

The Group's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments.

31 December 2011

	Sterling £000	Euro £000	US Dollar £000	Other £000	Total £000
Cash and cash equivalents	2,498	3,224	912	1,143	7,777
Trade receivables	7,179	143	-	95	7,417
Trade payables	(1,431)	-	-	-	(1,431)
Balance sheet exposure	8,246	3,367	912	1,238	13,763

Sensitivity analysis

There are no significant exposures to foreign currency within the Group.

Notes *(continued)*

20 Operating leases

Non-cancellable operating lease rentals in relation to other assets are payable as follows:

	2011 **£000**	2010 £000
Less than one year	**28**	17

21 Commitments

There are no capital commitments at 31 December 2011 *(2010: nil)*.

22 Contingencies

Group and Company

There were no contingent assets or liabilities as at 31 December 2011.

23 Related parties

Group

Identity of related parties with which the Group has transacted

Expenses recharged relate primarily to salaries of the finance staff who provide services to related parties. Expenses charged by related parties relate primarily to rent of premises and equipment.

A monthly management charge is made to Amorix Ltd for website management.

The companies listed are all under common control.

No interest is charged or payable on any of the balances.

Transactions with key management personnel

The directors of the Company, and their immediate relatives, control 47.4 per cent of the voting shares of the Company.

The compensation of key management personnel (including the directors) is as follows:

	Group		**Company**	
	2011 **£000**	2010 £000	**2011** **£000**	2010 £000
Key management emoluments including social security costs	**671**	858	**671**	858
	671	858	**671**	858

Notes *(continued)*

23 Related parties *(continued)*

Group *(continued)*

Other related party transactions

	Administrative expenses recharged to 2011 £000	2010 £000	Administrative expenses incurred from 2011 £000	2010 £000
IDE Ltd	**6**	6	**19**	15
Maxymiser Ltd	**-**	3	**-**	-
Logicalware Ltd	**6**	6	**-**	-
Biebod Properties	**-**	-	**31**	18
Biebod Ukraine Ltd	**-**	-	**173**	181
Amorix Ltd	**1,080**	1,080	**-**	-
	1,092	1,095	**223**	214

	Receivables outstanding 2011 £000	2010 £000	Payables outstanding 2011 £000	2010 £000
IDE Ltd	**81**	7	**-**	-
Alcuda Ltd	**-**	-	**106**	-
Logicalware Ltd	**14**	7	**-**	-
Amorix Ltd	**2,266**	106	**-**	-
Biebod Properties	**-**	-	**-**	1
Lovescanner	**253**	-	**-**	-
	2,614	120	**106**	1

Company

Identity of related parties with which the Company has transacted

Other related party transactions

	Administrative expenses recharged to 2011 £000	2010 £000	Administrative expenses incurred from 2011 £000	2010 £000
IDE Ltd	**6**	6	**19**	15
Maxymiser Ltd	**-**	3	**-**	-
Logicalware Ltd	**6**	6	**-**	-
Biebod Properties	**-**	-	**31**	18
Biebod Ukraine Ltd	**-**	-	**173**	181
Amorix Ltd	**1,080**	1,080	**-**	-
	1,092	1,095	**223**	214

The amount outstanding from Amorix Ltd includes cash being processed through one of the payment gateways of Amorix Ltd as this was deemed the most effective method for ensuring a high collection rate of Cupid plc white label revenues.

Notes *(continued)*

23 Related parties *(continued)*

Company *(continued)*

	Receivables outstanding 2011 £000	2010 £000	Payables outstanding 2011 £000	2010 £000
IDE Ltd	**81**	7	-	-
Maxymiser Ltd	-	-	-	-
Alcuda Ltd	-	-	**106**	-
Logicalware Ltd	**14**	7	-	-
Amorix Ltd	**2,266**	106	-	-
Biebod Properties	-	-	-	1
Biebod Ukraine Ltd	-	-	-	-
Lovescanner	**253**	-	-	-
	2,614	120	**106**	1

24 Post balance sheet event

On 1st February 2012, the Company signed an agreement to lease the assets of Friends Dating Ltd, known as Friends Reunited Dating, for a ten year period. An initial payment of £600,000 was paid.