Cupid plc

Annual report and financial statements

Registered number SC368538

31 December 2013

Contents

Performance highlights

Results highlights based on continuing operations[1]

- Disposal of casual assets[4] will provide £26m of cash over the next three years
- Transition into traditional business 95% complete, with all of the people, the platform and processes successfully migrated
- Revenues from continuing business[1] were flat at £26.6m (FY 2012: £26.7m)
- Adjusted EBITDA[2] loss of £2.8m (FY 2012: profit £4.2m)
- Cash position of £12.6m at 31 Dec 2013 (31 Dec 2012: £14.1m)
- Adjusted Earnings per Share[3] from the continuing business was a loss of 5.03p (FY 2012: 2.91p profit)
- Proposed final dividend of 3.00p per share (FY 2012: 3.00p per share)
- Continued focus on improvement in product quality and customer experience now delivering improvements in key metrics
- Reduction in continuing business cost base
- Significant strengthening of senior management team

Post period highlights

- Three-year strategic vision in place to build a robust, scalable, digital technology company
- New product launches in the first quarter of 2014; initial positive signs with multiple additional enhancements scheduled for the second quarter
- Conversion and churn improved
- Expect to be cash generative in the second half of the year
- Profitability to be at a positive run rate as Cupid enters 2015

[1]Continuing operations or continuing business excludes the revenues and costs associated with the casual assets and the German business.
[2]Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, share based payments, acquisition costs and restructuring costs and exceptional costs. The term "adjusted EBITDA" is not defined in IFRS and therefore may not be comparable with similarly titled measures reported by other companies. Underlying measures are not intended as a substitute for, or a superior measure to, IFRS measures.
[3]Adjusted Earnings per Share is defined as earnings after tax but before depreciation, amortisation, share based payments, acquisition and restructuring costs and exceptional costs.
[4]Casual assets refers to the Company's casual dating business which included BeNaughty, Flirt and CheekyLovers.

Company profile

- Cupid plc listed on AIM in June 2010 and is an international provider of online dating services operating market-leading brands. In July 2013 Cupid completed the disposal of its casual assets and is now focused on developing traditional dating and adjacent services.
- Cupid plc offers a network of online dating services, rather than a single core brand. Our diverse brand portfolio allows us to reach mainstream, niche and specific regional markets with highly relevant products and services, tailored to a variety of dating lifestyles and cultures. The Group's most heavily visited websites include www.cupid.com, www.uniformdating.com and www.girlsdateforfree.com. The Group also promotes niche brands such as www.lovebeginsat.com, www.datingforparents.com, and www.maturedatinguk.com.
- Cupid plc products are available via the web and across smartphone platforms.
- Further information on the Company can be found at www.cupidplc.com.

Chairman's statement

2013 was undoubtedly a challenging year for Cupid, but it was also a year of positive transformation and we emerge from that period with renewed focus and an exciting and more tightly defined strategy. Our business model and operating practices were criticised publicly early in the year. These criticisms were later categorically proven (by an independent review) to be entirely without substance. This was a deeply frustrating experience, but the business has gained strength from it.

The successful disposal of the Company's casual dating business ("casual assets") in July 2013 was the start of a transformative process. In disposing of the casual assets we have both streamlined the business and generated cash to support the evolution of the business into attractive complementary areas. The transition process following the disposal is 95% complete – during the nine months to March 2014 we migrated all of the people, the platform and processes. We have also transformed the nature of Cupid, creating a platform for the future – a focused platform which will drive sustainable growth and which is devoid of the short-termism driven by managing casual traffic and its monetisation. We have embedded a new product approach with an emphasis on improving both the overall customer experience and the long-term quality of our revenue streams. Our already experienced market-facing team has been further strengthened.

At Board level 2013 was also a year of change. Niall Stirling joined the Board as Chief Financial Officer in January 2013 following Mark Doughty's resignation to pursue his career in Australia. In December we welcomed Phil Gripton to the Board in his role as Chief Executive Officer with Bill Dobbie taking on a role as Non-Executive Director.

Under Phil's leadership our new strategy will see Cupid plc broaden into a robust, scalable international digital technology company with core competencies in digital services, data AdTech and online dating. Cupid is very well positioned to deliver this strategy due to its assets in terms of people, skills, digital development experience and importantly a large and ever-growing pool of rich first party data.

Against that background our priorities for 2014 are to complete the recovery phase for the dating business, extend the revenue streams beyond dating and start to develop and exploit our digital credentials. The recovery phase for the dating business will require significant focus given the degree of change involved but we have made good progress so far and with new product launches in the first quarter of 2014 we are already starting to see some positive signs.

Finally I would also like to take this opportunity to thank our shareholders for their support. The Board continues to value your support and we believe that the announcement of a dividend of 3.00p per share indicates our optimism for the future as well as recognising the Group's solid balance sheet.

George Elliott
Non-Executive Chairman

Chief Executive Officer's review

Review of 2013

This report is our fourth as a public company and my first as CEO since succeeding Bill Dobbie in December 2013. I would like to thank Bill for his hard work and commitment in bringing us to this point and for his continuing support as a Non-Executive director.

2013 was a very challenging year for Cupid with the business having to navigate through a series of major events. It was certainly a year of two very different halves with the significant impact of negative press on both Cupid and the online dating industry in the first half of the year resulting in a great deal of leadership time being diverted to defend against unfounded allegations which threatened our corporate reputation. The operational teams also had to deal with extra workload arising from supporting the independent external review by KPMG.

Over the past years, Cupid has increasingly invested activities towards attractive, sustainable niche and mainstream dating sites. The Board believes these areas have greater long-term potential and will deliver a more sustainable business in which to invest. We had increasingly viewed the casual products as a complex portfolio of assets characterised by non-differentiated, circular revenue streams that were very short-term in nature. These were becoming less attractive in the medium and long-term and the Board concluded that this was an inappropriate direction for a listed company. We therefore took the decision to sell the casual assets and re-focus on the Company's mainstream core dating assets with a view to extending into more attractive complementary and strategic areas.

In July we completed the disposal of the casual assets removing approximately 70% of our revenue and resulting in some 320 staff moving to Grendall, the purchaser.

The 2013 financial performance of the business reflects the impact of the disposal, the challenging year in general from a macro perspective and the consequences of restructuring the mainstream core dating assets. As further explained below, after adjusting for the elimination of cross-marketing and the effects of acquisitions, the sustainable continuing revenue was estimated to be £22.0m in 2013 (FY 2012: £28.0m) and adjusted EBITDA a loss of £7.4m (FY 2012: profit of £0.2m). In re-assessing 2012 we have identified that both poor quality traffic and weak product quality were leading to worsening conversion and increasing churn as the year progressed, which were being masked by the top-line growth in the casual dating business. Into early 2013 this trend continued but in the second half of the year we spent less on online marketing and focused on more relevant and better quality traffic. Conversion and churn improved and, with product improvements in Q1 2014 and with a large number of enhancements planned for Q2 2014, we expect this trend to continue and to begin to deliver higher-quality, long-term revenues.

Throughout 2013 we took the opportunity to re-work the business for a traditional only approach and investigated natural complementary extensions to the core subscription dating services. These extensions now form an exciting part of Cupid's future strategy.

Transition

The disposal marked the beginning of the initial six months of a transition period where the two businesses were separated, splitting human capital, the platform, hardware assets, marketing, CRM and product development, allowing the two businesses to continue to trade whilst becoming truly separate entities, with the purchaser establishing their own back office infrastructure and relationships with payment merchant providers. We set ourselves an aggressive target of completing this within six months from the sale, which was achieved by the end of 2013. The migration, although challenging, was a success with all major changes made as planned without any disruption in services to our customers.

In mid-July 2013 we began a period of positive internal change for the continuing business in order to prepare for the future with a traditional-only focus. We embarked on a significant market and customer research project ("Cloud 9") to better understand the current demands of the traditional dating customer. This involved mapping out in detail the previously largely 'casual' processes we had deployed to address the market in terms of traffic volume and quality. This process identified the changes required to products, branding, marketing and process to ensure an engaging and valuable service for our chosen demographics and niches. The Cloud 9 project delivered both the consumer insights and new branding concepts for the re-launch of Cupid.com, Uniform Dating and a new brand to address the ever-expanding opportunity in the 45+ mature part of the market. Early 2014 will see the launch of the international brand LoveBeginsAt.com.

Chief Executive Officer's review *(continued)*

We completed an internal reorganisation to focus on six key markets (UK, Australia, USA, Canada, France and Germany) and four main business segments, Mainstream (focused around Cupid.com), Uniform Dating, Mature and Network (other non-core brands). This reorganisation also supported the simplification and rationalisation of the business to be 'fit for purpose' post separation. To reflect the scale of the business going forward, a rightsizing process took place in the final quarter of 2013 reducing the headcount by a third (115 heads) across the business. Non-profitable parts of the business and their associated projects were addressed with Cupid Labs, WomenWeb and Roomwise being closed down and their resources and any developed assets either being invested back into the core or divested.

We enhanced the leadership function with highly skilled and experienced talent joining us in the second half of the year. Samantha Bedford joined Cupid in September having spent six years previously with U-date and Match.com as well as time with Vodafone. Sam brings a wealth of relevant knowledge and experience and has already made a major contribution to the re-engineering and launch of our new brand offerings.

In the USA we secured Michele Don Durbin to drive our North American growth plans. Michele joined us at the end of the year having had more than fifteen successful years in the world of internet and digital marketing in global acquisition roles with eBay and Skype as well as an entrepreneurial startup.

The senior management team has invested time to more closely connect the UK and Ukraine teams and has relocated the heads of the pivotal functions to our Edinburgh headquarters. These changes are providing the catalyst for a much needed change in leadership style and are having a positive impact on our culture, driving core tenets of Teamwork, Collaboration, Respect, and Learning. We move into 2014 with a refreshed leadership team with broader digital experience, putting us in a stronger position to deliver the future strategy.

The Market

The global market for online dating continues to grow as it becomes ever more socially acceptable. We saw interesting developments throughout 2013 in terms of market growth with industry commentators describing the global market revenues for online dating heading towards $3bn p.a. in 2015.

The largest players continue to grow successfully; Facebook and Google have acknowledged online dating as a specific market segment by creating their own groups and account teams to address the main players. New entrants have made an impact in the market both in terms of capturing share and in giving more mass-market exposure to mobile dating apps. The higher level of press interest together with further integration with social media platforms has seen the market come of age.

Mobile Web, App and Tablet access continues to grow at pace in all major markets as the proliferation of mobile devices continues. Social media access is also growing and we saw a 22% increase in access to core products in the USA via social platforms in 2013. Cupid is well equipped to keep pace with this trend and capitalise with mobile and social versions of major products available in all markets.

The inevitable demand for industry regulation and control of personal data has seen the launch of the Online Dating Association (ODA) in the UK. This is a body set up by the industry to ensure that consumers of dating services receive a fair and valuable service from dating companies in the UK. We have been in dialogue with the ODA since its formation and have completed the membership application process having complied with all elements of the code of practice. Cupid will be an active supporter of this move towards self-regulation as it is a core tenet of Cupid's brand and corporate values to always offer a safe, simple, fair and trusted service to our customers whilst protecting them and their personal data.

Operational Review

- People
Following the recent rationalisation Cupid still has 225 employees across the globe with a presence in the UK, USA, France and Ukraine. Our teams endured a challenging and disruptive 2013 but still managed to keep the business working effectively, as well as developing for our future. My thanks go out to the teams who have worked

extremely diligently and regularly beyond the contracted working week to ensure that we can put our best foot forward in 2014.

Chief Executive Officer's review *(continued)*

- Quality
Our strategy to build valuable brands in both niche and mainstream areas remains the primary focus for 2014. The need for a quality service, which seeks to maximise the user experience, has never been more important. We continue to work towards creating brands that resonate with our target audience and broaden the offer past the "matching" element of the process into facilitating the "date", by helping our customers access offers for services they may want to consume as part of their dating experience.

We continue to invest in technology and processes that improve service for our users, speeding up the authentication of profiles, approval of photographs and processing their requests for support. We actively measure our service using Net Promoter Score as a benchmark and constantly seek feedback from customers.

- Brands
We are excited about the opportunity to re-launch and refresh our brands in 2014 and in doing so will rebalance our marketing significantly, reducing our dependence on affiliate partners and using multiple channels to market our brands. We will look to maximise usage of social platforms and search engines as well as emerging opportunities in display media with targeted real time bidding ("RTB") and native advertising solutions.

The decision taken during 2013 to develop our "brand management function" means we now have owners of each brand whose focus is to ensure that the brands deliver the best possible experience for our users at every touch-point, from sign-up right through payment processing and into the customer support centre. We will deliver a consistent quality feel that our customers will associate with our brands.

Our marketing will continue to be largely digital-based however we will, where appropriate, use offline methods to promote particular brands or campaigns. During 2013 the marketing spend on the sustainable continuing business was 3% lower than 2012 on a comparable basis. The change in marketing sources and the need to drive higher quality traffic for the continuing business will mean a stronger focus on marketing efficiency and the need to drive more organic unpaid traffic through brand searches and social mentions.

- Innovation
We believe that the "matching" part of the online dating world can be built upon with smart management of customers in the dating cycle. Cupid can extend this to offer services sourced from partners that are relevant to the "date" that follows. We have the advantage of in-house technology that allows us to develop methods to offer these services to customers in 2014, opening new revenue sources to increase ARPU. We expect to see the first of these services come to market in the first half of 2014.

- Focus
In 2014 we will be focused on ensuring that the underlying basics of the service are optimised and from that foundation we will push hard to grow subscriber numbers and ARPU. The delivery of a successful core dating business is of paramount importance, as we will leverage it to gain traction for our new strategic initiatives.

Strategy

Our three-year strategic vision is to build upon our dating foundations to transform Cupid into a robust, scalable, digital technology company, delivering significant and profitable growth.

From a successful and growing core dating business we will push forward our development of a complementary Data AdTech opportunity. The initial elements of this will be in place in the first half of 2014 allowing us to utilise the first party data assets our business produces from the core service to create anonymised customer audience segments that are tradable in the RTB marketplace. We will also develop our ability to bring outbound marketing campaigns to our extensive membership base, bringing them value add offers from partners.
These extensions offer us an exciting opportunity to grow the company in new and interesting ways and take advantage of a larger and growing addressable market. Over the next three years we will take advantage of the core assets, skills and resources we have developed to become a technology company with core competencies in Dating, Data AdTech and Digital Service delivery.

Cupid has a challenging road ahead as we position our business into a more customer focused traditional dating and data services company. We have an exciting and enviable opportunity to develop the business in new directions.

Chief Executive Officer's review *(continued)*

Financial Review

Group Profit

At a headline level our revenues including discontinued operations fell 31% to £56.1m (FY 2012: £80.9m) and adjusted EBITDA fell to £0.5m (FY 2012: £16.4m). Depreciation and amortisation increased to £6.9m (FY 2012: £5.9m) reflecting a full year charge for both Assistance General Logiciel ("AGL") in France and NSI (Holdings) Limited ("Uniform Dating") and higher website development amortisation. Exceptional costs incurred are in relation to legal and other costs associated with investigating and addressing the accusations made against the Company's operating practices in the early part of 2013, a provision for patent infringement costs and employee tribunal costs.

The pre-tax gain on disposal of £23.4m reflects both the sale of the casual assets to Grendall in July 2013 as well as the disposal of the German business. The value of the consideration from the sale of the casual assets has been discounted by £3.9m in accordance with IFRS 13. This discount is expected to unwind over time as the terms of the deferred consideration payments are fulfilled.

Continuing business

Stripping out the discontinued operations, revenue for the continuing business was flat at £26.6m (FY 2012: £26.7m).

Continuing business	**H1 2013**	**H2 2013**	**2013**	**2012**
	£m	**£m**	**£m**	**£m**
Revenue	16.2	10.4	26.6	26.7
Direct marketing	(9.4)	(6.0)	(15.4)	(11.7)
Other direct costs	(3.3)	(3.1)	(6.4)	(5.5)
Gross profit	**3.5**	**1.3**	**4.8**	**9.5**
GP%	*22%*	*13%*	*18%*	*36%*
Admin expenses	(4.0)	(3.6)	(7.6)	(5.3)
Adjusted EBITDA	**(0.5)**	**(2.3)**	**(2.8)**	**4.2**

To present a complete picture of the underlying trend it is also necessary to adjust for the effect of casual cross-marketing. Historically, around 20% of new subscribers were generated through referrals from casual sites, this ceasing in September 2013. These non-continuing revenues are estimated at £4.6m in 2013, (FY 2012: £4.7m). On a pro forma basis and adjusting 2012 for a full year of AGL and Uniform Dating and eliminating cross marketing revenue:

Sustainable business	**H1 2013**	**H2 2013**	**2013**	**2012**
	£m	**£m**	**£m**	**£m**
Revenue	12.6	9.4	22.0	28.0
Direct marketing	(9.4)	(6.0)	(15.4)	(15.8)
Other direct costs	(3.3)	(3.1)	(6.4)	(6.6)
Pro forma Gross profit	**(0.1)**	**0.3**	**0.2**	**5.6**
Contribution %	*25%*	*36%*	*30%*	*44%*
GP%	*-1%*	*3%*	*1%*	*20%*
Admin expenses	(4.0)	(3.6)	(7.6)	(5.4)
Pro forma Adjusted EBITDA	**(4.1)**	**(3.3)**	**(7.4)**	**0.2**

Revenue fell from H1 to H2 due to a combination of marketing under-investment and a fall in conversion as we tightened up registration procedures in H1. Contribution after marketing fell from 44% in 2012 to 30% in 2013. As we exited 2012 we could see that the sources of traffic and weak product quality were leading to poorer conversion and increasing churn. This trend continued into 2013 and conversion fell further.

Our 2013 direct costs also include Cupid Labs costs in the second half: these will not continue. 2014 however will see investment in user experience and the marketing team.

Chief Executive Officer's review *(continued)*

Administrative expenses costs are £2.2m higher in 2013. This is due to an additional £0.8m of non-recurring costs, £0.2m in respect of our French office, £0.4m of legal & professional fees, and new US office costs. Directors' costs were also higher for most of the year. The second half of 2013 also showed the impact of £0.6m of forex losses due to the rapidly strengthening pound. Administrative expenses going forward will be in line with 2012.

Tax charge

The effective tax rate is 8.7% (FY 2012: 20.9%). The key reason for the reduced effective tax rate is the allowable gain on sale whereby the proportion of the gain attributable to the sale of two Cypriot entities is not taxable.

Balance sheet

The reduction of £20m in the value of intangibles is largely down to the disposal of the casual assets with 70% of all intangibles removed on disposal or written off giving a lower burden going forward. This has been partially offset by web development additions with internal development costs of £2.5m capitalised in the year compared to £2.8m in 2012.

The Grendall debtor after discounting in line with IFRS 13 is £22m. All payments due to date under the sale have been received in line with the agreed schedule. The fall in trade and other receivables is due in part to the repayment of related party balances during the period. Trade receivables are also lower due to the reduced revenue for the final six months of the year. Overall, trade and other payables have decreased by £5m. The deferred consideration in respect of the acquisition of Uniform Dating has now been fully paid. There were also reductions in the levels of deferred income and marketing and staff bonus accruals.

Reserves are reduced by £3m in respect of the shares repurchased and subsequently cancelled and a further £9m in respect of shares returned as part of the consideration for the disposal and now held as treasury shares. Non-controlling interests disappear following the German disposal.

Cash flow

Our closing cash position remains strong at £12.6m (FY 2012: £14.1m). We successfully managed our working capital and consequently operating cash flow is positive at £3.6m (FY 2012: £15.1m). Disposal proceeds reflect the money received to date from Grendall less costs of the disposal. £0.6m was invested in computer hardware and other assets. £5.5m has been returned to shareholders in share buyback and dividend payments.

Trading KPIs for the continuing operations

The key trading metrics covering the second half of 2012 and 2013 are set out below:

KPIs	*H2 2012*	*H1 2013*	*H2 2013*
Registrations '000 [1]	8,699	12,539	4,371
£ per registration [2]	£0.48	£0.57	£1.33
New subscribers '000 [3]	293	278	135
Conversion [4]	3.4%	2.2%	3.1%
ARPU [5]	£20.76	£21.14	£21.01
Churn [6]	50%	44%	33%
Closing subscribers '000 [7]	113	102	69

[1]Registrations is the total number of new registered users in the period
[2]£ per registration is the direct marketing cost per new registration
[3]New subscribers is the total number of new paying subscribers in the period
[4]Conversion is the proportion of new registrations that convert to paying subscribers

Chief Executive Officer's review *(continued)*

Registrations increased in H1 2013 in response to higher marketing investment. As previously mentioned the poor quality of traffic led to falling conversion. To reassure our customers we implemented barriers to registration to deter scammers and, as a result, conversion fell further. In the second half of 2013 online marketing was restricted to £6.0m while our products were redesigned for their 2014 launch, but focused on more relevant and better quality traffic. Registration numbers declined and cost per registration increased to £1.33 but with higher quality we saw better conversion and lower churn. ARPU fell in the second half due to price repositioning. Churn fell to 33% in the second half and exited December at its lowest point for two years. Despite the better conversion and lower churn, subscriber numbers fell to 69,000.

Dividend

The directors propose a final ordinary dividend in respect of the current financial year of 3.00p per share (FY 2012: total dividend of 3.00p 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 20 June 2014, the final dividend will be paid on 4 July 2014 to shareholders on the register on 6 June 2014.

The level of dividend is intended to deliver a yield the directors believe is appropriate for a company of this size and nature, as well as demonstrating the optimism for our business model going forward. 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 and Outlook for 2014

Though it is still early in the financial year and the full effects of our new product launches have yet to be seen we are already seeing improvements in our key metrics. We have also been re-addressing the marketing mix to ensure we can continue to raise the quality of traffic. Improvements in search engine optimisation ("SEO") for example now mean that Uniform Dating is ranking in the 'Top 3' for key search terms.

The dating market was highly competitive in the first quarter and ahead of our product launches in Q2 2014 we will be holding our marketing spend at a little over the H2 2013 level. It is our view that revenues will start to improve in Q2 2014 following the launch of Cupid.com, LoveBeginsAt and Uniform Dating in the UK. Progressively these will roll out to Australia and the USA, with the latter on a new platform. In line with the stated strategy, we continue to focus on turning the business round in the first half and look to show further evidence of the recovery in the second half. Accordingly we expect revenue to be lower in the first half of the year compared to H2 2013 on a sustainable basis and even after allowing for the reduction in direct costs and administrative expenses this will have a negative impact on EBITDA.

As marketing spend is increased we expect subscriber numbers and then revenue to grow. As part of our three-year strategy, we will also bring on stream our data proposition in the second half of the year and begin to grow our non-subscription revenue. We expect to be cash generative in the second half of the year and our profitability to be at a positive run rate as we enter 2015. This is all part of the evolution to provide the platform upon which to grow in 2015 and beyond.

Phil Gripton
Chief Executive Officer

Board of directors

George Elliott, age 61 - Non-Executive Chairman

George has been Non-Executive Chairman of Cupid plc since 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, and Non-Executive Chairman of Calnex Solutions Ltd, a manufacturer of Ethernet test equipment. George was until May 2013 a Non-Executive Director of Corsair Components Inc., a designer and supplier of high-performance components to the PC gaming hardware market, based in Fremont, California. From 2000 to 2007, George was CFO 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 CFO 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 a graduate of Heriot-Watt University in accountancy and finance and is based in Edinburgh. George serves on the Remuneration Committee and the Audit Committee.

Phil Gripton, age 44 - Chief Executive Officer

Phil is an experienced leader with a broad business background in technology, telecoms and digital marketing. Phil joined Cupid plc on 3 January 2013 and was appointed as director on 1 December 2013. He spent the previous three years in digital marketing with the leading marketing and technology services agency LBi. In his roles as COO and prior to that MD of the acquired bigmouthmedia business, he led the evolution of the agency with particular focus on the growth of the media business and its integration into the LBi group.

Phil previously spent 20 years in senior leadership roles with technology businesses including Cable & Wireless, Energis, and Parametric Technology Corporation. His early career was with ICL Fujitsu in IT consultancy in the UK.

Phil brings a wealth of digital marketing experience together with a commercial and general management track record and has consistently created and developed efficient, high-performing businesses.

Phil has a BA honours Degree in computer science and business and lives in Edinburgh with his family.

Bill Dobbie, age 55 - Non-Executive Director 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 seven 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.

Ian McCaig, age 47 - Non-Executive Director

Ian McCaig is CEO of First Utility, the leading independent UK energy business and a pioneer in smart-metering technology and energy analytics. He is also a member of the VisitBritain Board, sits on the NSPCC's Childline Board and is a Trustee of the Windsor LeadershipTrust.

Ian started his career in the IT industry and spent eight years at ICL. He then moved into telecommunications (initially with Telewest, now part of Virgin Media) before joining Nokia in 1997. During over six years with the Finnish firm, he worked across most European markets prior to becoming MD, UK & Ireland for Nokia

Board of directors *(continued)*

Networks. He concluded his time at Nokia by bringing some of the world's first 3G networks to market, working across Europe, the Middle East and Asia.

In 2003, Ian joined lastminute.com, Europe's largest online travel and leisure business. Ian was appointed to the Board in November 2003 and helped grow the business from £500m in sales in 2003 to nearly three times that by 2005 when the company was sold to Travelocity for £577m. Following the transaction he led the integration of Travelocity's European business interests with those of the lastminute.com group. He was appointed group CEO in spring 2006 and steered lastminute.com through its most successful years before moving on in 2011.

Ian joined the Board on 6 March 2012, chairs the Audit Committee and serves on the Remuneration Committee.

Russell James Shaw, age 51 - Non-Executive Director

Russ was Vice President and General Manager of Skype with responsibilities for Europe, Middle-East and Africa and its Mobile Division from 2009 to 2011. Prior to this, Russ 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 also spent a year as Chief Executive of Mobileway, Inc (later acquired by Sybase) and two years as Managing Director of NTL Group (now Virgin Media). His earlier experience includes positions at Charles Schwab Corporation, American Express Company and Ernst & Young. Russ currently serves as a non-executive director on the Boards of mobile solutions business Unwire ApS and Dialog Semiconductor GmbH. He was also Chairman of the Marketing Board of Great Britain (2011-2012) and currently Founder of Tech London Advocates, a not-for-profit advocacy group of senior leaders promoting London's technology sector.

Russ joined the Board on 6 March 2012, chairs the Remuneration Committee and serves on the Audit Committee.

Niall Stirling, age 56 - Chief Financial Officer and Company Secretary

Niall joined Cupid plc as CFO on 3 January 2013. He brings over 20 years' experience in senior financial and operational roles in branded consumer businesses in the UK, US and across Europe. Having trained with Ernst & Young he worked at Coca-Cola Schweppes and then as Finance Director Brands for Highland Distillers, owners of The Famous Grouse and The Macallan. As Commercial Director at Maxxium he successfully set up what was then a new joint venture, a premium drinks distributor turning over £300m. He then spent five years with Red Bull, including two years as CFO of Red Bull North America Inc. Prior to joining Cupid Niall spent four years as CFO and then Executive Director of Operations of the Performing Rights Society.

Niall has an MA in Pure Mathematics from the University of St Andrews and is a Scottish CA.

Corporate governance report

The Board of Directors ("The Board") acknowledges 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 and the Board has not adopted the Code, the Board recognises the importance of good corporate governance practices and has therefore modelled its governance principles having regard to the principles set out in the Code. This Report and the Remuneration Committee Report summarises the Board's approach to corporate governance.

The Board

The Company requires 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 met twenty three times during the year, twelve for scheduled meetings and eleven unscheduled additional meetings, to discuss and agree on the various matters brought before it, including 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 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 Board has determined 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 Phil Gripton 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 Executive 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. The Board has considered the time commitment required by his other roles and has concluded that they do not detract from his chairmanship of the Company.

Composition of and appointments to the Board

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

The Board comprises a Non-Executive Chairman, Chief Executive Officer, Chief Financial Officer, and three independent Non-Executive Directors. Short biographies of the directors are given on pages 10 and 11. 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 contributor to the proper

Corporate governance report *(continued)*

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

functioning of the Board, helping to ensure matters are fully debated and that no individual or group dominates the Board decision-making process.

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 then 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

Information of a sufficient quality should be 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, 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 Board undertakes a formal and rigorous evaluation of its own performance annually and that of its committees and individual Directors.

Normally the performance of the Board is reviewed formally annually by the Chairman by means of a detailed questionnaire the results of which are collated and presented to the Board. This evaluation includes a review of the performance of individual Directors, the Chairman and Board committees. At the end of 2011 a formal evaluation was conducted and one of the main points arising from this review was to strengthen the Board by appointing additional Non-Executive Directors. In March 2012 two independent Non-Executive Directors were appointed to the Board and one Executive Director and one Non-Executive Director resigned from the Board. During 2013 it was agreed that Bill Dobbie should become a Non-Executive Director and that a new CEO should be appointed. A recruitment consultancy was appointed and a formal search was carried out. A shortlist was prepared which included Phil Gripton, the internal candidate, who was ultimately successful in being appointed. The next formal evaluation of the Board will be carried out in 2014.

Re-election

The Board has determined that 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.

The Audit Committee

The Audit Committee's role is to assist the Board with the discharge of its responsibilities in relation to the internal and external audits and controls. The committee met three times during the year for scheduled meetings and comprised Ian McCaig (Chairman), George Elliott, and Russ Shaw. 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.

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 charged by the external auditors; and
- the formal engagement terms entered into with the external auditors.

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.

Corporate governance report *(continued)*

The Remuneration Committee

The Remuneration Committee comprises Russ Shaw (Chairman), George Elliott and Ian McCaig. It is usual for Phil Gripton, as Chief Executive Officer, to be invited to attend meetings except where matters under review by the committee relate to him. The committee met four times during the year for scheduled meetings.

The committee has responsibility for making recommendations to the Board on the remuneration packages of the Executive Directors, and monitoring the level and structure of remuneration for senior management, including:

- 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.

In addition, the committee reviews the Board structure and size and evaluates Executive Director succession plans.

Attendance at Board and Committee Meetings

Attendances of directors at Board and committee meetings convened in the year, and which they were eligible to attend, are set out below:

	Board	Remuneration Committee	Audit Committee
Number of meetings in year	23	4	3
George Elliott – Non-Executive Chairman	23/23	4/4	3/3
Bill Dobbie – Non-Executive Director	23/23		
Mark Doughty – Commercial Director	10/16		
Ian McCaig – Non-Executive Director	19/23	4/4	3/3
Russell Shaw – Non-Executive Director	22/23	4/4	3/3
Niall Stirling – Chief Financial Officer	23/23		
Phil Gripton – Chief Executive Officer	1/1		

Internal control and risk management

The directors are responsible for the Group's system of internal control and 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.

Corporate governance report *(continued)*

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, 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.

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 Respect, Openness, Education, Innovation, One Team 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.

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 employees' 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, age, religion, political or other opinion, disability, or sexual orientation.

Corporate governance report *(continued)*

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.

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 with 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 available 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:

Niall Stirling
Company Secretary

17 April 2014

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 in accordance with the recommendations of the Combined Code. The members of the committee were Russ Shaw (Chairman), Ian McCaig and George Elliott. Each of the committee members are independent, Non-Executive directors and none of them 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 formulating 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, no Executive Directors were awarded share options under this scheme.

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 three years commencing 28 May 2010. In May 2013 this was extended for another three years.

	Contract date	Contract expiry date	Normal notice period
George Elliott	28 May 2010	27 May 2016	3 months
Bill Dobbie	1 December 2013	30 November 2014	3 months
Ian McCaig	6 March 2012	5 March 2015	3 months
Russell Shaw	6 March 2012	5 March 2015	3 months
Phil Gripton	1 December 2013	Not fixed term	6 months
Niall Stirling	3 January 2013	Not fixed term	6 months

Directors' emoluments

For directors who held office during the course of the year, emoluments for the year ended 31 December 2013 were as follows:

	Salary/fees £	Benefits £	Bonus £	2013 total £	2012 total £
George Elliott	83,900	-	-	83,900	65,000
Bill Dobbie	199,167	-	-	199,167	597,500
Phil Gripton (Dec 2013 only)	18,750	1,301	50,000	70,051	-
Niall Stirling	173,654	-	61,250	234,904	-
Max Polyakov	-	-	-	-	69,569
Martin Higginson	-	-	-	-	4,513
Mark Doughty	78,462	-	-	78,462	408,000
Ian McCaig	45,000	-	-	45,000	32,796
Russell Shaw	45,000	-	-	45,000	32,796
Total	**643,933**	**1,301**	**111,250**	**756,484**	**1,210,174**

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

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

Remuneration Committee report *(continued)*

Directors' interests in share options

The interests of the directors at 31 December 2013 in options over the ordinary shares of the Company were as follows:

Name of director	At 31/12/12	Granted	Exercised	At 31/12/13	Exercise price	Market price at date of award	Date of grant	Date from when exercisable	Expiry date
Niall Stirling	500,000	-	-	500,000	£1.80	£1.80	4 Dec 2012	4 Dec 2013	4 Dec 2023
Phil Gripton	500,000	-	-	500,000	£1.80	£1.80	4 Dec 2012	4 Dec 2013	4 Dec 2023
Total	**1,000,000**	**-**	**-**	**1,000,000**					

The market price of the Company's shares at the end of the financial period was £0.62 and the range of prices during the period from 1 January 2013 to the end of the financial year was £0.46 to £1.90.

Directors' interests in shares

The interests of the directors at the end of the year in the ordinary shares of the Company at 31 December 2013, together with their interests at 31 December 2012 were as follows:

Name of director	Number of ordinary shares 31 December 2013	31 December 2012
George Elliott	**26,000**	26,000
Bill Dobbie	**14,676,053**	13,811,053
Russell Shaw	**10,064**	10,064
Niall Stirling	**7,588**	7,588
Phil Gripton	**27,333**	7,574

On behalf of the Remuneration Committee

Russell Shaw

17 April 2014

Strategic report

Principal activities

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

Business review

The Companies Act 2006 requires the Company to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2013 including an analysis of the Group at the end of the financial year. The information that fulfils these requirements can be found in the following sections of the Annual Report which are incorporated into this report by reference:

- the Chairman's Statement
- the Chief Executive Officer's Review

Market position and products

The Directors are pleased with the significant progress made during the period in the transformation of the business following the disposal of the casual assets.

Cupid plc continues to expand its traditional dating business in the UK domestic market and internationally. Full details of the Company's market position and products are given in the Operational Review.

Operational highlights and future developments

Cupid plc continues to invest in its traditional dating business and expects to complete the recovery phase for the dating business, extend the revenue streams beyond dating and start to develop and exploit our digital credentials with a positive outlook going forward as outlined in the Chairman's Statement and the Chief Executive Officer's Financial Review and Operational Review.

Research and development

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

Principal risks and uncertainties

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 that 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 that 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 skills, 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 number of Cupid operational staff concentrated in two locations in Ukraine, there is an added risk to the Group should there be any adverse impact from any political, environmental, economic or fiscal changes within Ukraine. The Group continues to identify key Ukraine based staff and has a policy of encouraging their development, e.g. transfers to other Group offices, such as the UK.

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 continuing investment in preventative maintenance and lifecycle replacement programme ensures its datacentres continue to deliver operational efficiency and effectiveness.

Strategic report *(continued)*

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. There has been significant investment in customer relationship systems and customer service staffing to meet the changing demands of the business.

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 subscription 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 and has a wide spread of payment processing relationships to mitigate the risk of reliance on any particular provider.

By order of the Board
Niall Stirling
Director

7 Castle Street
Edinburgh
EH2 3AH

17 April 2014

Directors' report

The directors of Cupid plc (the "Company") present their Annual Report to shareholders together with the audited financial statements of Cupid plc and its subsidiaries ("the Group") for the year ended 31 December 2013. The Annual Report contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ from those anticipated. Nothing in this Annual Report should be construed as a profit forecast.

Directors

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

Bill Dobbie
George Elliott
Mark Doughty (resigned 22 July 2013)
Ian McCaig
Russ Shaw
Niall Stirling (appointed 3 January 2013)
Phil Gripton (appointed 1 December 2013)

Company Secretary

Niall Stirling (appointed 3 January 2013)

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 set out on pages 10 and 11.

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.

Details of the directors' service contracts and their respective notice terms are detailed in the Remuneration Committee report.

Authorised and issued share capital

Between 7 January and 1 March 2013 the company purchased 1,725,000 shares at a total consideration of £3.0m under an approved buyback program.

5,000 shares were issued as a result of the exercising of share options during the year.

The result is that the Company has 83,371,971 ordinary shares issued and fully paid up as at the closing balance sheet date of 31 December 2013.

As at that date the authorised share capital was 108,866,736 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.

Directors' report *(continued)*

Substantial Shareholders

At 17 April 2014 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	14,676,053	17.6%
Cupid plc (Treasury shares)	12,169,978	14.6%
Kestrel Partners LLP	5,764,500	6.9%
Majedie Asset Management	5,503,120	6.6%
Hargreaves Lansdown Asset Management	3,019,763	3.6%

Indemnity of directors and officers

Under the Company's Articles of Association and subject to the provisions of the Companies Act, the Company may indemnify 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 his 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 persons

Applications for employment by 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

There are no post year-end events to be reported.

Dividend

The directors propose a final ordinary dividend in respect of the current financial year of 3.00p pence 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 20 June 2014, the final dividend will be paid on 4 July 2014 to shareholders on the register on 6 June 2014.

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.

KPMG Audit Plc has notified the company that they are not seeking reappointment. In accordance with Section 489 of the Companies Act 2006, a resolution for the appointment of KPMG LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board
Niall Stirling
Director

7 Castle Street
Edinburgh
EH2 3AH

17 April 2014

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

The directors are responsible for preparing the strategic report and 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 2013 set out on pages 28 to 73. 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, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 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 matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following 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.

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

17 April 2014

Consolidated statement of comprehensive income

for year ended 31 December 2013

	Note	**Continuing operations**	**Discontinued operations**	**Total 2013**	Continuing operations	Discontinued operations	Total 2012
		£000	**£000**	**£000**	£000	£000	£000
Revenue	*3*	**26,603**	**29,457**	**56,060**	26,700	54,209	80,909
Cost of sales		**(21,778)**	**(25,438)**	**(47,216)**	(17,157)	(40,917)	(58,074)
Gross profit		**4,825**	**4,019**	**8,844**	9,543	13,292	22,835
Administrative expenses		**(12,256)**	**(4,557)**	**(16,813)**	(10,543)	(3,122)	(13,665)
Operating (loss)/profit		**(7,431)**	**(538)**	**(7,969)**	(1,000)	10,170	9,170
Analysed as:							
Earnings before interest, tax, depreciation, amortisation, share based payments, acquisition and restructuring costs and exceptional costs		**(2,802)**	**3,277**	**475**	4,178	12,255	16,433
Acquisition and restructuring costs		**(80)**	**-**	**(80)**	(944)	-	(944)
Share based payments		**(142)**	**(33)**	**(175)**	(300)	(128)	(428)
Depreciation of plant and equipment		**(378)**	**(169)**	**(547)**	(236)	(209)	(445)
Amortisation of intangible assets		**(2,959)**	**(3,359)**	**(6,318)**	(3,698)	(1,748)	(5,446)
Exceptional costs	2	**(1,070)**	**(254)**	**(1,324)**	-	-	-
Finance income		**70**	**-**	**70**	61	-	61
(Loss)/profit before taxation		**(7,361)**	**(538)**	**(7,899)**	(939)	10,170	9,231
Taxation credit (charge)	7	**1,725**	**(244)**	**1,481**	(175)	(1,750)	(1,925)
(Loss)/profit for the year after taxation		**(5,636)**	**(782)**	**(6,418)**	(1,114)	8,420	7,306
Gain on disposal of discontinued activities net of tax	*24*	**-**	**20,508**	**20,508**	-	-	-
Profit/(loss) for the financial year		**(5,636)**	**19,726**	**14,090**	(1,114)	8,420	7,306
Other comprehensive income:							
Items that are or may be reclassified subsequently to profit or loss:							
Foreign exchange translation differences – equity accounted investments		**203**	**-**	**203**	(373)	-	(373)
Profit for the financial year and total comprehensive income all attributable to equity holders of the parent		**(5,433)**	**19,726**	**14,293**	(1,487)	8,420	6,933
Basic and diluted earnings per share	*8*						
Basic (p per share)		**(7.24)p**	**25.34p**	**18.10p**	(1.36)p	10.25p	8.89p
Diluted (p per share)		**(7.24)p**	**25.34p**	**18.10p**	(1.36)p	10.09p	8.73p

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 2013

	Note	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Non-current assets					
Property, plant and equipment	*9*	**447**	1,062	**310**	820
Intangible assets	*10*	**4,718**	24,674	**1,990**	7,703
Trade and other receivables	*13*	**15,564**	-	**9,884**	-
Investments	*11*	**-**	-	**4,301**	16,927
		20,729	25,736	**16,485**	25,450
Current assets					
Trade and other receivables	*13*	**8,690**	10,481	**9,139**	12,618
Cash and cash equivalents	*14*	**12,607**	14,127	**11,281**	12,360
		21,297	24,608	**20,420**	24,978
Total assets		**42,026**	50,344	**36,905**	50,428
Current liabilities					
Other interest-bearing loans and borrowings	*15*	**-**	13	**-**	13
Trade and other payables	*16*	**7,938**	12,913	**14,285**	17,014
Tax payable		**383**	1,417	**1,285**	172
		8,321	14,343	**15,570**	17,199
Non-current liabilities					
Deferred tax liabilities	*12*	**644**	2,506	**55**	-
		644	2,506	**55**	-
Total liabilities		**8,965**	16,849	**15,625**	17,199
Net assets		**33,061**	33,495	**21,280**	33,229
Equity attributable to equity holders of the parent					
Share capital	*18*	**2,084**	2,127	**2,084**	2,127
Share premium	*18*	**18,025**	18,021	**18,025**	18,021
Share options reserve	*18*	**635**	1,447	**635**	1,447
Capital redemption reserve	*18*	**43**	-	**43**	-
Retained earnings	*18*	**13,705**	13,318	**1,754**	12,895
Foreign currency translation reserve	*18*	**(170)**	(373)	**-**	-
Merger reserve	*18*	**(1,261)**	(1,261)	**(1,261)**	(1,261)
Equity attributable to the equity holders of the parent		**33,061**	33,279	**21,280**	33,229
Non-controlling interests		**-**	216	**-**	-
Total Equity		**33,061**	33,495	**21,280**	33,229

These financial statements were approved by the board of directors on 17 April 2014 and were signed on its behalf by:

Niall Stirling
Director
Company registered number: SC368538

Statements of changes in equity

Group	Share capital	Share premium	Share options reserve	Capital redemption reserve	Retained earnings	Foreign currency translation reserve	Merger reserve	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2012	2,028	13,183	1,161	-	7,849	-	(1,261)	22,960
Total comprehensive income for the year								
Profit for the year	-	-	-	-	7,306	-	-	7,306
Exchange rate differences	-	-	-	-	-	(373)	-	(373)
Transactions with owners recorded directly in equity								
Charge for the year	-	-	428	-	-	-	-	428
Dividends paid	-	-	-	-	(1,837)	-	-	(1,837)
Deferred tax on share based payments	-	-	(142)	-	-	-	-	(142)
Issue of ordinary shares	99	4,838	-	-	-	-	-	4,937
Balance at 31 December 2012	**2,127**	**18,021**	**1,447**	**-**	**13,318**	**(373)**	**(1,261)**	**33,279**
Total comprehensive income for the year								
Profit for the year	-	-	-	-	14,090	-	-	14,090
Exchange rate differences	-	-	-	-	-	203	-	203
Transactions with owners recorded directly in equity								
Charge for the year	-	-	175	-	-	-	-	175
Dividends paid	-	-	-	-	(2,502)	-	-	(2,502)
Deferred tax on share based payments	-	-	(175)	-	-	-	-	(175)
Cancellation of options	-	-	(812)	-	812	-	-	-
Issue of ordinary shares	-	4	-	-	-	-	-	4
Share buyback	(43)	-	-	43	(2,985)	-	-	(2,985)
Shares held in treasury	-	-	-	-	(9,028)	-	-	(9,028)
Balance at 31 December 2013	**2,084**	**18,025**	**635**	**43**	**13,705**	**(170)**	**(1,261)**	**33,061**

Company	Share capital	Share premium	Share options reserve	Capital redemption reserve	Retained earnings	Foreign currency translation reserve	Merger reserve	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2012	2,028	13,183	1,161	-	8,818	-	(1,261)	23,929
Total comprehensive income for the year								
Profit for the year	-	-	-	-	5,914	-	-	5,914
Transactions with owners recorded directly in equity								
Dividends paid	-	-	-	-	(1,837)	-	-	(1,837)
Charge for the year	-	-	428	-	-	-	-	428
Deferred tax on share based payments	-	-	(142)	-	-	-	-	(142)
Issue of ordinary shares	99	4,838	-	-	-	-	-	4,937
Balance at 31 December 2012	**2,127**	**18,021**	**1,447**	**-**	**12,895**	**-**	**(1,261)**	**33,229**
Total comprehensive income for the year								
Profit for the year	-	-	-	-	2,562	-	-	2,562
Transactions with owners recorded directly in equity								
Dividends paid	-	-	-	-	(2,502)	-	-	(2,502)
Charge for the year	-	-	175	-	-	-	-	175
Deferred tax on share based payments	-	-	(175)	-	-	-	-	(175)
Cancellation of options	-	-	(812)	-	812	-	-	-
Issue of ordinary shares	-	4	-	-	-	-	-	4
Share buyback	(43)	-	-	43	(2,985)	-	-	(2,985)
Shares held in treasury	-	-	-	-	(9,028)	-	-	(9,028)
Balance at 31 December 2013	**2,084**	**18,025**	**635**	**43**	**1,754**	**-**	**(1,261)**	**21,280**

Cash flow statements
for year ended 31 December 2013

	Note	**Group**		**Company**	
		2013	2012	**2013**	2012
		£000	£000	**£000**	£000
Cash flows from operating activities					
Profit for the year		**14,090**	7,306	**2,562**	5,914
Adjustments for:					
Depreciation and amortisation		**6,865**	5,891	**3,080**	2,821
Financial income		**(70)**	(61)	**(69)**	(61)
Equity settled share-based payment expenses		**175**	428	**175**	428
Taxation		**1,406**	1,925	**2,790**	1,303
Gain on disposal of discontinued activities	*7,24*	**(23,395)**	-	**(8,704)**	-
Other reserve movements		**203**	(373)	**-**	-
		(726)	15,116	**(166)**	10,405
Decrease/(increase) in trade and other receivables		**8,351**	36	**7,512**	(3,114)
(Decrease)/ increase in trade and other payables		**(1,276)**	1,852	**971**	8,896
		6,349	17,004	**8,317**	16,187
Tax paid		**(2,704)**	(1,901)	**(1,298)**	(1,600)
Net cash from operating activities		**3,645**	15,103	**7,019**	14,587
Cash flows from investing activities					
Interest received		**70**	61	**69**	61
Acquisition of subsidiary, net of cash acquired		**(3,416)**	(5,275)	**(3,416)**	(6,858)
Acquisition of property, plant and equipment	*9*	**(635)**	(835)	**(533)**	(680)
Capitalised development expenditure	*10*	**(2,535)**	(2,822)	**(2,414)**	(2,594)
Acquisition of other intangible assets	*10*	**(72)**	(2,961)	**(72)**	(2,766)
Proceeds from sale of discontinued operations	*24*	**6,652**	-	**3,731**	-
Proceeds from sale of property, plant and equipment		**267**	-	**33**	-
Net cash from investing activities		**331**	(11,832)	**(2,602)**	(12,837)
Cash flows from financing activities					
Proceeds from the issue of share capital		**-**	4,937	**-**	4,937
Payment of finance lease liabilities		**(13)**	(21)	**(13)**	(21)
Share buy-back		**(2,981)**	-	**(2,981)**	-
Dividends paid	*18*	**(2,502)**	(1,837)	**(2,502)**	(1,837)
Net cash from financing activities		**(5,496)**	3,079	**(5,496)**	3,079
Net (decrease)/ increase in cash and cash equivalents		**(1,520)**	6,350	**(1,079)**	4,829
Cash and cash equivalents at 1 January 2013		**14,127**	7,777	**12,360**	7,531
Cash and cash equivalents at 31 December 2013	*14*	**12,607**	14,127	**11,281**	12,360

The net cash flows attributable to the operating, investing and financing activities of discontinued operations are presented in note 24.

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 7 Castle Street, Edinburgh EH2 3AH.

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.

Presentation of Items of Other Comprehensive Income

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its consolidated statement of profit or loss and OCI, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

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 and below.

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 cash flow 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. Available cash resources will include deferred consideration instalments to be received in connection with the sale of discontinued operations.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

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.

Deferred consideration on disposal of discontinued operations

Deferred consideration on disposal of discontinued operations is calculated based on expected future cash flows discounted at a risk-adjusted discount rate.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

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 recognised 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 estimated 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, currently between two years and ten years.
- internally generated development costs over estimated asset lifespan, currently between 15 months and three years.
- customer databases over a maximum period of two years.

The estimated asset lifespans for current intangibles are between 15 months and ten years.

Notes *(continued)*

1 Accounting policies *(continued)*

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. Any 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. Profits applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests. When the relevant subsidiary undertaking is disposed of, the non-controlling interest is reversed.

Common control transactions

A business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the combination, and where that control is not transitory, is a common control transaction. The group applies book value accounting where a new holding company is inserted as part of a common control transaction: as a result, assets and liabilities acquired are transferred at book value with an adjustment in equity to reflect any difference between the consideration paid and the capital of the acquiree.

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 is calculated as amortised cost.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when the conditions giving rise to the impairment loss 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.

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. When the Group has an underlying obligation to provide services because, for example, of membership being paid in advance, revenue is recognised as the service is performed and amounts billed or secured in advance are treated as deferred income and excluded from current revenue.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

Effective standards

The accounting policies have been applied consistently to all periods presented, except for the adoption of the standards described below. Amendments to IFRS 7 have had no impact on the reported numbers but may affect the accounting for future transactions and events.

IFRS 13: Fair Value Measurement (effective year ended 31 December 2013) defines fair value, sets out a framework for measuring fair values and requires disclosures about fair value measurement. This has been applied in respect of the fair value measurement of the deferred consideration relating to the casual dating disposal.

Amendment to IFRS 7: Disclosures – Offsetting financial assets and financial liabilities (effective year ended 31 December 2013) requires disclosure of information to enable users to evaluate the effect or potential effect of netting arrangements and similar agreements on the financial position.

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

Fair value adjustments were made in relation to the acquisitions during the prior year. Within these adjustments consideration was 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

Where the Group is expected to have substantial tax deductions as a result of the future exercising of employee share options, a deferred tax asset is created for these share options based on the share price at the balance sheet date (see note 12).

Notes *(continued)*

1 Accounting policies *(continued)*

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.

Foreign currency

The consolidated financial statements are presented in sterling, which is the Group's functional and presentation currency. The income and expenses of foreign entities are translated at the average exchange rate for the period in which the activity occurred. The assets and liabilities of such entities are translated at the exchange rate prevailing at the balance sheet date. Exchange differences arising upon translation are reported as a separate component of equity.

Monetary assets and liabilities denominated in foreign currency are translated to the presentation currency at the exchange rate ruling at each balance sheet date. Foreign currency differences arising on retranslation of these monetary items are recognised as a profit or a loss in for the period.

Exceptional costs

The Group has disclosed additional information in respect of exceptional items on the face of the consolidated statement of comprehensive income in order to aid understanding of the Group's financial performance. An item is treated as exceptional if it is considered that by virtue of its nature, scale, or incidence it is of such significance that separate disclosure is required for the financial statements to be properly understood. These items are not part of the Group's normal ongoing operations.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation has been discontinued from the start of the comparative period.

2 Exceptional Costs

Exceptional costs relating to continuing operations consist of legal and professional fees incurred following allegations made against the Group (£0.3m), a provision for costs associated with patent infringement claims (£0.5m) and employee contract termination costs (£0.2m). The patent infringement claims relate principally to a summons served on the Company in May 2012 by a business called Unified Messaging Solutions alleging patent infringement for web methods of storing, delivering and managing messaging. This allegation continues to be vigorously defended by the Company. Exceptional costs relating to discontinued operations consist of a share of legal and professional costs in relation to the allegations made against the Group. Provisions are included within accrued expenses and are expected to be utilised within one year.

Notes *(continued)*

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, South Africa)
- **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 uses this basis of assessing progress due to the volume of countries in which the Group operates increasing, and the characteristics being better aligned by maturity rather than international region.

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 all are 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)*

2013	Established Markets £000	New Markets £000	Developing Territories £000	Total £000
Revenue	23,461	30,913	1,686	56,060
Direct marketing costs	(13,801)	(19,592)	(1,142)	(34,535)
Revenue less direct marketing costs	9,660	11,321	544	21,525
Other direct costs				(12,681)
Gross profit				8,844
Operating expenses (excluding depreciation, amortisation, share based payments, acquisition and restructuring costs, and exceptional costs)				(8,369)
Adjusted EBITDA				475
Depreciation, amortisation, share based payments, acquisition and restructuring costs, and exceptional costs				(8,444)
Operating loss				(7,969)
Finance income				70
Loss before tax and gain on disposal of discontinued operations				(7,899)

2012	Established Markets £000	New Markets £000	Developing Territories £000	Total £000
Revenue	34,943	44,804	1,162	80,909
Direct marketing costs	(15,793)	(26,613)	(574)	(42,980)
Revenue less direct marketing costs	19,150	18,191	588	37,929
Other direct costs				(15,094)
Gross profit				22,835
Operating expenses (excluding depreciation, amortisation, share based payments, and acquisition and restructuring costs)				(6,402)
Adjusted EBITDA				16,433
Depreciation, amortisation, share based payments, and acquisition and restructuring costs				(7,263)
Operating profit				9,170
Finance income				61
Profit before tax				9,231

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 2013 were £19.7m *(2012: £22.5m)*.

Notes *(continued)*

4 Expenses and auditor's remuneration

Included in profit are the following:

	2013 £000	2012 £000
Depreciation of tangible assets:		
Owned assets	**547**	445
Amortisation of intangibles	**6,318**	5,446

Auditor's remuneration:

	2013 £000	2012 £000
Audit of these financial statements	**48**	38
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries of the company	**2**	-
Audit-related assurance services	**18**	14
Tax compliance services	**48**	52
Other tax advisory services	**55**	-
Other assurance services	**287**	-
Total	**458**	104

Tax advisory services includes costs associated with the disposal of the casual dating business and tax advice in relation to overseas operations. Other assurance services consists of an independent database review.

5 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 2013	Group 2012
Support	**104**	124
Technical	**272**	317
Marketing	**81**	90
Administration	**44**	53
Directors	**7**	6
	508	590

Notes *(continued)*

5 Staff numbers and costs *(continued)*

The aggregate payroll costs of these persons were as follows:

	Group 2013 £000	Group 2012 £000
Wages and salaries	**8,501**	8,061
Social security costs	**1,013**	820
	9,514	8,881

6 Directors' remuneration

	2013 £000	2012 £000
Directors' emoluments	**883**	1,278
Amounts paid to third parties in respect of directors' services	-	37

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £235,000 *(2012: £595,000).*

	Number of directors 2013	**2012**
The number of directors who exercised share options was	1	2
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	-	-

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

Directors' emoluments are included within the Remuneration Committee report.

Notes *(continued)*

7 Taxation

Recognised in the income statement

	2013 £000	2012 £000
Current tax expense		
Current year	**1,503**	2,124
Adjustments for prior years	**173**	277
Current tax expense	**1,676**	2,401
Deferred tax credit	**(270)**	(476)
Total tax expense	**1,406**	1,925
Tax expense on sale of discontinued operations	**2,887**	-
Total tax (credit)/expense before tax on sale of discontinued operations	**(1,481)**	**1,925**

Tax recognised directly in equity (i.e. not in comprehensive income)

	2013 £000	2012 £000
Current tax recognised directly in equity	**-**	-
Deferred tax recognised directly in equity	**(175)**	(142)
Total tax recognised directly in equity	**(175)**	(142)

Reconciliation of effective tax rate

	2013 £000	2012 £000
Profit for the year	**14,090**	7,306
Total tax expense	**1,406**	1,925
Profit before taxation	**15,496**	9,231
Tax using the UK corporation tax rate of 23.25% *(2012: 24.5%)*	**3,603**	2,262
Non-deductible expenses	**52**	49
Under provided in prior years	**173**	277
Share option relief	**(22)**	(544)
Difference due to profit taxed overseas	**(311)**	(108)
Income not taxable (gain on disposal)	**(2,556)**	-
Deferred tax credits written off	**460**	-
Other differences	**7**	(11)
Total tax expense	**1,406**	1,925

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 December 2013 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

Notes *(continued)*

8 Earnings per share

Continuing operations	Earnings 2013 £000	Weighted average no. of shares 2013 '000	Earnings per share 2013	Earnings 2012 £000	Weighted average no. of shares 2012 '000	Earnings per share 2012
Basic earnings per share	(5,636)	77,862	(7.24)p	(1,114)	82,203	(1.36)p
Dilution for options		2	-		1,448	0.03p
Diluted earnings per share		77,864	(7.24)p		83,651	(1.33)p
Diluted earnings per share capped						(1.36)p
Amortisation of intangible assets (ex R&D)	2,021			3,395		
Acquisition and restructuring costs	80			944		
Share based payments	142			300		
Tax impact of adjusted items	(521)			(1,137)		
Adjusted earnings for the period	(3,914)			2,388		
Basic adjusted earnings per share		77,862	(5.03)p		82,203	2.91p
Diluted adjusted earnings per share		77,864	(5.03)p		83,651	2.86p

Total Group	Earnings 2013 £000	Weighted average no. of shares 2013 '000	Earnings per share 2013	Earnings 2012 £000	Weighted average no. of shares 2012 '000	Earnings per share 2012
Basic earnings per share	14,090	77,862	18.10p	7,306	82,203	8.89p
Dilution for options		2	-		1,448	(0.16)p
Diluted earnings per share		77,864	18.10p		83,651	8.73p
Amortisation of intangible assets (ex R&D)	4,735			4,453		
Acquisition and restructuring costs	80			944		
Share based payments	175			428		
Gain on disposal	(23,395)			-		
Tax impact of adjusted items	1,727			(1,427)		
Adjusted earnings for the period	(2,588)			11,704		
Basic adjusted earnings per share		77,862	(3.32)p		82,203	14.24p
Diluted adjusted earnings per share		77,864	(3.32)p		83,651	13.99p

Basic earnings per share

The calculation of basic earnings per share at 31 December 2013 was based on the profit attributable to ordinary shareholders of £14,090,000 *(2012: £7,306,000)* and a weighted average number of ordinary shares outstanding of 77,862,287 *(2012: 82,203,131)* calculated as follows:

Notes *(continued)*

8 Earnings per share *(continued)*

Weighted average number of ordinary shares

	Note	**2013 Number**	2012 Number
Issued ordinary shares at start of year	*18*	**85,091,971**	81,106,108
Effect of share options exercised		**72,719**	643,324
Effect of shares issued in September 2012		**-**	453,699
Effect of share buyback		**(1,570,538)**	-
Effect of shares held in treasury		**(5,731,865)**	-
Weighted average number of ordinary shares at 31 December		**77,862,287**	82,203,131

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2013 was based on profit attributable to ordinary shareholders of £14,090,000 *(2012: £7,306,000)* and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 1,630 *(2012: 1,448,116)*, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2013 Number	2012 Number
Weighted average number of ordinary shares (basic)	**77,862,287**	82,203,131
Effect of share options on issue	**1,630**	1,448,116
Weighted average number of ordinary shares (diluted) at 31 December	**77,863,917**	83,651,247

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.

The measure of adjusted earnings per share, as calculated above, is a non-statutory measure which we believe is useful to investors and is commonly used to evaluate the performance of businesses where M&A activity is significant.

Notes *(continued)*

9 Property, plant and equipment

Group

	Plant and equipment £000
Cost	
Balance at 1 January 2012	1,161
Additions	835
Disposal	(135)
Balance at 31 December 2012	1,861
Balance at 1 January 2013	1,861
Additions	635
Disposal	(1,373)
Balance at 31 December 2013	1,123
Depreciation and impairment	
Balance at 1 January 2012	490
Depreciation charge for the year	445
On disposals	(136)
Balance at 31 December 2012	799
Balance at 1 January 2013	799
Depreciation charge for the year	547
On disposals	(670)
Balance at 31 December 2013	676
Net book value	
At 31 December 2011	671
At 31 December 2012	1,062
At 31 December 2013	**447**

Leased plant and machinery

At 31 December 2013 the net carrying amount of leased plant and machinery was £ nil *(2012: £*13,000*)*. The leased equipment secured lease obligations (see note 15).

Notes *(continued)*

9 Property, plant and equipment (continued)

Company

	Plant and equipment £000
Cost	
Balance at 1 January 2012	750
Additions	680
Disposals	(136)
Balance at 31 December 2012	1,294
Balance at 1 January 2013	1,294
Additions	533
Disposal	(1,138)
Balance at 31 December 2013	689
Depreciation and impairment	
Balance at 1 January 2012	315
Depreciation charge for the year	295
On disposals	(136)
Balance at 31 December 2012	474
Balance at 1 January 2013	474
Depreciation charge for the year	415
On disposals	(510)
Balance at 31 December 2013	379
Net book value	
At 31 December 2011	435
At 31 December 2012	820
At 31 December 2013	**310**

Leased plant and machinery

At 31 December 2013 the net carrying amount of leased plant and machinery was £ nil *(2012: £13,000)*. The leased equipment secured lease obligations (see note 15).

Notes *(continued)*

10 Intangible assets

Group

	Development costs £000	Goodwill £000	Intellectual property £000	Customer databases £000	Total £000
Cost					
Balance at 1 January 2012	2,487	4,029	6,036	3,717	16,269
Acquisitions through business combinations	-	1,610	3,643	7,999	13,252
Other additions – internally developed	2,822	-	-	-	2,822
Other additions – externally purchased	-	-	1,095	1,703	2,798
Balance at 31 December 2012	5,309	5,639	10,774	13,419	35,141
Balance at 1 January 2013	5,309	5,639	10,774	13,419	35,141
Acquisitions through business combinations	-	(284)	-	-	(284)
Other additions – internally developed	2,535	-	-	-	2,535
Other additions – externally purchased	-	-	72	-	72
Disposals	(5,114)	(4,386)	(7,826)	(9,492)	(26,818)
Balance at 31 December 2013	2,730	969	3,020	3,927	10,646
Amortisation and impairment					
Balance at 1 January 2012	898	-	1,836	2,287	5,021
Amortisation for the year	993	-	1,568	2,885	5,446
Balance at 31 December 2012	1,891	-	3,404	5,172	10,467
Balance at 1 January 2013	1,891	-	3,404	5,172	10,467
Amortisation for the year	1,583	-	3,641	1,094	6,318
On disposals	(1,954)	-	(4,790)	(4,113)	(10,857)
Balance at 31 December 2013	1,520	-	2,255	2,153	5,928
Net book value					
At 1 January 2012	1,589	4,029	4,200	1,430	11,248
At 31 December 2012 and 1 January 2013	3,418	5,639	7,370	8,247	24,674
At 31 December 2013	**1,210**	**969**	**765**	**1,774**	**4,718**

Development costs are costs incurred in relation to the creation of new products, systems, and processes which help to drive future revenue generation. Only specific costs incurred on specific projects that meet the capitalisation criteria specified in accounting standards are capitalised.

Intellectual property relates mainly to web domains. Any other component of this balance is not considered sufficiently material as to require separate disclosure.

Other externally purchased intangibles include the acquisition of other web domains and customer databases.

The adjustment to goodwill (£284,000) is in connection with the acquisition of NSI (Holdings) Limited and an element of the contingent consideration which was not payable due to the payment criteria not being fully satisfied.

Notes *(continued)*

10 Intangible assets *(continued)*

Group *(continued)*

Amortisation charge

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

	2013 £000	2012 £000
Administrative expenses	**6,318**	5,446

No impairment charges have been booked.

Impairment testing

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

	Goodwill 2013 £000	Goodwill 2012 £000
Established Markets	**408**	1,783
New Markets	**544**	3,801
Developing Territories	**17**	55
	969	5,639

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

	2013	2012
Period on which management approved forecasts are based	**5 years**	5 years
Growth rate applied beyond approved forecast period to revenues and costs	**5%**	5%
Average discount rate (pre-tax)	**15%**	15%

Forecasts used for the 2014 to 2018 years reflect internal management forecasts for the Group based on past performance and the experience of growth rates. The key assumptions applied during this five year period are as follows: revenue decline in 2014 across all segments as business turnaround is completed; double digit growth in revenue across 2015 in all segments as marketing investment grows and subscriber base increases; and modest single digit growth in the years 2016-2018 in all three segments.

The growth rates used in the value in use calculation beyond 2018 reflect the average growth rate experienced by the online dating industry in the UK and North America, these regions being the most important regions within Established Markets and New Markets respectively.

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 amount would fall below its carrying amount.

Notes *(continued)*

10 Intangible assets – *(continued)*

Company

	Development costs £000	Goodwill £000	Intellectual property £000	Customer databases £000	Total £000
Cost					
Balance at 1 January 2012	2,487	580	3,613	1,735	8,415
Other additions – internally developed	2,594	-	-	-	2,594
Other additions – externally purchased	-	-	1,094	1,704	2,798
Disposals – transfer to group company	-	-	(202)	-	(202)
Balance at 31 December 2012	5,081	580	4,505	3,439	13,605
Balance at 1 January 2013	5,081	580	4,505	3,439	13,605
Other additions – internally developed	2,414	-	-	-	2,414
Other additions – externally purchased	-	-	72	-	72
Disposals	(4,764)	(404)	(3,360)	(2,469)	(10,997)
Balance at 31 December 2013	2,731	176	1,217	970	5,094
Amortisation and impairment					
Balance at 1 January 2012	898	-	1,231	1,262	3,391
Amortisation for the year	985	-	733	808	2,526
On disposals	-	-	(15)	-	(15)
Balance at 31 December 2012	1,883	-	1,949	2,070	5,902
Balance at 1 January 2013	1,883	-	1,949	2,070	5,902
Amortisation for the year	1,501	-	1,103	61	2,665
On disposals	(1,864)	-	(2,089)	(1,510)	(5,463)
Balance at 31 December 2013	1,520	-	963	621	3,104
Net book value					
At 1 January 2012	1,589	580	2,382	473	5,024
At 31 December 2012 and 1 January 2013	3,198	580	2,556	1,369	7,703
At 31 December 2013	**1,211**	**176**	**254**	**349**	**1,990**

Amortisation charge

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

	2013 £000	2012 £000
Administrative expenses	**2,665**	2,526

No impairment charges have been booked.

Notes *(continued)*

10 Intangible assets – *(continued)*

Company *(continued)*

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 2013 £000	Goodwill 2012 £000
Established Markets	**159**	525
Developing Territories	**17**	55
	176	580

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

	2013	2012
Period on which management approved forecasts are based	**5 years**	5 years
Growth rate applied beyond approved forecast period	**5%**	5%
Discount rate (pre-tax)	**15%**	15%

Forecasts used for the 2014 to 2018 years reflect internal management forecasts for the Group based on past performance and the experience of growth rates. The key assumptions applied during this five year period are as follows: revenue decline in 2014 across all segments as business turnaround is completed; double digit growth in revenue across 2015 in all segments as marketing investment grows and subscriber base increases; and modest single digit growth in the years 2016-2018 in all three segments.

The growth rates used in value in use calculation beyond 2018 reflect the average growth rate experienced by the online dating industry in the UK and North America, these regions being the most important regions within Established Markets and New Markets respectively.

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.

11 Investments in subsidiaries – Company

	£000
At start of year	16,927
Acquisition of NSI (Holdings) Limited	(284)
Disposal of casual assets	(11,600)
Disposal of German companies	(742)
At 31 December 2013	4,301

Casual assets refers to the Company's casual dating business which included BeNaughty, Flirt and CheekyLovers.

Notes *(continued)*

11 Investments in subsidiaries – Company *(continued)*

The Company has the following investments in subsidiaries:

	Country of Incorporation	Class of shares held	Ownership 2013	2012
Group and Company				
Easydate Ukraine	Ukraine	Ordinary	**100%**	100%
Easydate Dnepro	Ukraine	Ordinary	**100%**	100%
Datingbiz Inc	USA	Ordinary	**100%**	100%
Cupid.com Inc	USA	Ordinary	**100%**	100%
Online Liebe GmbH	Germany	Ordinary	-	75%
WomenWeb GmbH	Germany	Ordinary	-	75%
Assistance Genie Logiciel	France	Ordinary	**100%**	100%
NSI (Holdings) Limited	England	Ordinary	**100%**	100%
Global Digital Corporation Limited	Scotland	Ordinary	**100%**	100%
Hooya Digital Limited	Cyprus	Ordinary	**100%**	100%
Yarra Digital Limited	Cyprus	Ordinary	**100%**	100%
EZD Digital Limited	Cyprus	Ordinary	**100%**	100%
Frindr Limited	England	Ordinary	**100%**	100%
Roomwise Limited	Scotland	Ordinary	**100%**	100%

The subsidiary undertakings identified below are exempt from the Companies Act 2006 requirements relating to the audit of their individual accounts by virtue of Section 479A of the Act as this company has guaranteed the subsidiary company under Section 479C of the Act.

Global Digital Corporation Limited (registered number SC398521)
Frindr Limited (registered number 07731874)
NSI (Holdings) Limited (registered number 05236118)

12 Deferred tax assets and liabilities

Group	Share based payments £000	Total deferred tax assets £000	Tangible and intangible assets £000	Total deferred tax liability £000	Net deferred tax liabilities £000
At 1 January 2012	(500)	(500)	663	663	163
Credit to the income statement	(200)	(200)	(276)	(276)	(476)
Debit to equity	142	142	-	-	142
Recognised on acquisition	-	-	2,677	2,677	2,677
At 31 December 2012	(558)	(558)	3,064	3,064	2,506
Charge/(credit) to the income statement	383	383	(653)	(653)	(270)
Debit to equity	175	175	-	-	175
Released on disposal	-	-	(1,767)	(1,767)	(1,767)
At 31 December 2013	-	-	644	644	644

The deferred tax on acquired assets arises from intangible assets acquired through the acquisition of 100% of the share capital of AGL and NSI (Holdings) Limited 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.

The deferred tax asset arising on share options has been fully written down at the balance sheet date as a result of the exercise price of the share options being significantly higher than the share price at the balance sheet date.

Notes *(continued)*

12 Deferred tax assets and liabilities *(continued)*

Company	Share based payments £000	Total deferred tax assets £000	Tangible and intangible assets £000	Total deferred tax liability £000	Net deferred tax liabilities £000
At 1 January 2012	(500)	(500)	40	40	(460)
Credit/charge to the income statement	(200)	(200)	385	385	185
Debit to equity	142	142	-	-	142
At 31 December 2012	(558)	(558)	425	425	(133)
Credit/charge to the income statement	383	383	(4)	(4)	379
Debit to equity	175	175	-	-	175
Released on disposal	-	-	(366)	(366)	(366)
At 31 December 2013	-	-	55	55	55

13 Trade and other receivables

	Group		Company	
Non-current	**2013 £000**	2012 £000	**2013 £000**	2012 £000
Deferred consideration on disposal of discontinued operations (note 24)	**15,564**	-	**9,884**	-
	15,564	-	**9,884**	-
Current				
Trade receivables due from related parties	-	2,228	-	2,228
Inter-company balances	-	-	**3,458**	3,154
Other trade receivables	**930**	6,545	**648**	5,728
Prepayments and other debtors	**1,198**	1,708	**867**	1,375
Deferred tax asset	-	-	-	133
Deferred consideration on disposal of discontinued operations (note 24)	**6,562**	-	**4,166**	-
	8,690	10,481	**9,139**	12,618

14 Cash and cash equivalents

	Group		Company	
	2013 £000	2012 £000	**2013 £000**	2012 £000
Cash and cash equivalents	**12,607**	14,127	**11,281**	12,360

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		**Company**	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Non-current liabilities				
Finance lease liabilities	-	-	-	-
Current liabilities				
Current portion of finance lease liabilities	-	13	-	13

Terms and debt repayment schedule

	Face value	**Carrying amount**	Face value	Carrying amount
	2013	**2013**	2012	2012
	£000	**£000**	£000	£000
Finance lease liabilities	-	-	13	13

Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	**Minimum lease payments**	**Interest**	**Principal**	Minimum lease payments	Interest	Principal
	2013	**2013**	**2013**	2012	2012	2012
	£000	**£000**	**£000**	£000	£000	£000
Less than one year	-	-	-	14	1	13
Between one and five years	-	-	-	-	-	-
More than five years	-	-	-	-	-	-
	-	-	-	14	1	13

Company	**Minimum lease payments**	**Interest**	**Principal**	Minimum lease payments	Interest	Principal
	2013	**2013**	**2013**	2012	2012	2012
	£000	**£000**	**£000**	£000	£000	£000
Less than one year	-	-	-	14	1	13
Between one and five years	-	-	-	-	-	-
More than five years	-	-	-	-	-	-
	-	-	-	14	1	13

Notes *(continued)*

16 Trade and other payables

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Current				
Trade payables due to related parties	**35**	-	**35**	-
Inter-company balances	**-**	-	**4,457**	7,402
Other trade payables	**1,122**	2,162	**501**	1,058
Non-trade payables and accrued expenses	**6,781**	10,751	**9,292**	8,554
	7,938	12,913	**14,285**	17,014

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 and consultants are as follows:

	Group		Company	
	2013	2012	**2013**	2012
	Number	Number	**Number**	Number
Opening balance	**7,249,699**	7,927,708	**7,249,699**	7,927,708
Granted during the year	**-**	2,084,727	**-**	2,084,727
Exercised during the year	**(207,494)**	(2,185,863)	**(207,494)**	(2,185,863)
Lapsed during the year	**(5,010,241)**	(576,873)	**(5,010,241)**	(576,873)
Closing balance	**2,031,964**	7,249,699	**2,031,964**	7,249,699

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 (Number)		Company (Number)	
					2013	2012	**2013**	2012
15/12/09	15/06/20	0.1625	0.08	15/12/11	**2,000**	28,160	**2,000**	28,160
14/06/10	13/06/20	0.1625	0.08	14/06/13	-	181,334	-	181,334
22/09/10	22/09/20	0.94	0.13	22/09/11	**55,689**	256,145	**55,689**	256,145
22/09/10	22/09/20	0.94	0.13	22/09/12	**74,801**	294,814	**74,801**	294,814
22/09/10	22/09/20	0.94	0.13	22/09/13	**80,579**	489,150	**80,579**	489,150
17/12/10	17/12/20	1.09	0.24	17/12/11	**1,667**	13,334	**1,667**	13,334
17/12/10	17/12/20	1.09	0.24	17/12/12	**1,667**	13,333	**1,667**	13,333
17/12/10	17/12/20	1.09	0.24	17/12/13	**1,666**	13,333	**1,666**	13,333
17/12/10	17/12/20	1.09	0.24	17/12/11	-	*913,000	-	*913,000
03/06/11	03/06/21	1.76	0.26	03/06/12	**181,690**	719,267	**181,690**	719,267
03/06/11	03/06/21	1.76	0.26	03/06/13	**211,102**	1,121,552	**211,102**	1,121,552
03/06/11	03/06/21	1.76	0.26	03/06/14	**211,103**	1,121,552	**211,103**	1,121,552
30/06/12	30/06/22	1.90	0.26	30/06/13	**70,000**	333,334	**70,000**	333,334
30/06/12	30/06/22	1.90	0.26	30/06/14	**70,000**	333,333	**70,000**	333,333
30/06/12	30/06/22	1.90	0.26	30/06/15	**70,000**	333,333	**70,000**	333,333
30/06/12	30/06/22	1.90	0.26	03/10/12	-	42,363	-	42,363
30/06/12	30/06/22	1.90	0.26	03/10/13	-	42,362	-	42,362
04/12/12	04/12/22	1.80	0.27	04/12/13	**333,334**	333,334	**333,334**	333,334
04/12/12	04/12/22	1.80	0.27	04/12/14	**333,333**	333,333	**333,333**	333,333
04/12/12	04/12/22	1.80	0.27	04/12/15	**333,333**	333,333	**333,333**	333,333
				Total	**2,031,964**	7,249,699	**2,031,964**	7,249,699

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 vested if the weighted average share price of the Company exceeded £1.50 for three consecutive months. This condition was not met during 2013.

All options lapsed on 15 January 2014, six months after the date of the disposal of the casual business.

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)*

Grant date 30 June 2012

Fair value at measurement date	£0.28
Weighted average share price	£1.90
Exercise price	£1.90
Expected volatility	30%
Option life	10 years
Expected dividends	5%
Risk-free interest rate (based on national government bonds)	1%

Grant date 4 December 2012

Fair value at measurement date	£0.27
Weighted average share price	£1.80
Exercise price	£1.80
Expected volatility	30%
Option life	10 years
Expected dividends	5%
Risk-free interest rate (based on national government bonds)	1%

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 weighted average share price at the date of the exercising of options in the year was £0.635.

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:

	2013	2012
	£000	£000
Equity settled share based payment expense	**175**	428

Notes *(continued)*

18 Capital and reserves – Group and Company

Share capital

	Number
At 1 January 2012	81,106,108
Issued on placing of shares	1,800,000
Issued on exercise of share options	2,185,863
In issue at 31 December 2012 – fully paid	85,091,971
At 1 January 2013	85,091,971
Share buyback	(1,725,000)
Issued on exercise of share options	5,000
In issue at 31 December 2013 – fully paid	83,371,971

	2013	2012
	£	£
Authorised		
A Ordinary shares of 2.5p	**2,721,668**	2,721,668
Allotted, called up and fully paid		
A Ordinary shares of 2.5p	**2,084,299**	2,127,299
Shares classified in shareholders' funds	**2,084,299**	2,127,299

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 monitors the return on capital and the level of dividends to ordinary shareholders.

1,725,000 shares were repurchased in January and February 2013.

5,000 shares were issued as a result of staff exercise of options during the year.

The result is that the Company has 83,371,971 ordinary shares issued and fully paid up as at the closing balance sheet date of 31 December 2013. As at that date the authorised share capital was 108,866,736 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.

12,379,472 shares were re-acquired as part of the disposal of the casual assets on 15 July 2013 and held as treasury shares (see note 24).

Share premium account – Group and Company

	£000
At 1 January 2013	18,021
Share premium on exercise of options	4
At 31 December 2013	18,025

Notes *(continued)*

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

Reserves

Cupid plc has five reserves other than share capital, namely the foreign currency translation reserve, share options reserve, capital redemption reserve, retained earnings, and merger reserve (where the difference between the consideration paid and the capital of the acquiree on any common control transaction is reflected).

Group	**Foreign currency translation reserve**	**Share options reserve**	**Capital redemption reserve**	**Retained earnings**	**Merger reserve**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 January 2012	-	1,161	-	7,849	(1,261)	7,749
Profit for the year	-	-	-	7,306	-	7,306
Dividends paid	-	-	-	(1,837)	-	(1,837)
Charge for the year	-	428	-	-	-	428
Deferred tax on share based payments	-	(142)	-	-	-	(142)
Exchange rate differences	(373)	-	-	-	-	(373)
At 31 December 2012	**(373)**	**1,447**	**-**	**13,318**	**(1,261)**	**13,131**
Profit for the year	-	-	-	14,090	-	14,090
Dividends paid	-	-	-	(2,502)	-	(2,502)
Charge for the year	-	175	-	-	-	175
Deferred tax on share based payments	-	(175)	-	-	-	(175)
Share buyback	-	-	43	(2,985)	-	(2,942)
Shares held in treasury	-	-	-	(9,028)	-	(9,028)
Transfer to profit and loss reserve	-	(812)	-	812	-	-
Exchange rate differences	203	-	-	-	-	203
At 31 December 2013	**(170)**	**635**	**43**	**13,705**	**(1,261)**	**12,952**

Company	**Foreign currency translation reserve**	**Share options reserve**	**Capital redemption reserve**	**Retained earnings**	**Merger reserve**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 January 2012	-	1,161	-	8,818	(1,261)	8,718
Profit for the year	-	-	-	5,914	-	5,914
Dividends paid	-	-	-	(1,837)	-	(1,837)
Charge for the year	-	428	-	-	-	428
Deferred tax on share based payments	-	(142)	-	-	-	(142)
At 31 December 2012	-	1,447	-	12,895	(1,261)	13,081
Profit for the year	-	-	-	2,562	-	2,562
Dividends paid	-	-	-	(2,502)	-	(2,502)
Charge for the year	-	175	-	-	-	175
Deferred tax on share based payments	-	(175)	-	-	-	(175)
Share buyback	-	-	43	(2,985)	-	(2,942)
Shares held in treasury	-	-	-	(9,028)	-	(9,028)
Transfer to profit and loss reserve	-	(812)	-	812	-	-
At 31 December 2013	**-**	**635**	**43**	**1,754**	**(1,261)**	**1,171**

Notes *(continued)*

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

Dividends

The following dividends were recognised during the period:

	2013	2012
	£000	£000
2011 final dividend	-	1,837
2012 final dividend	**2,502**	-
Total	**2,502**	1,837

The proposed final dividend for 2013 of 3.00p per share (estimated total payable £2.1m) 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:

Assets as per balance sheets

Group

	2013		2012	
	Loans and receivables	**Total**	Loans and receivables	Total
	£000	**£000**	£000	£000
Trade receivables	**930**	**930**	8,773	8,773
Cash and cash equivalents	**12,607**	**12,607**	14,127	14,127
Deferred consideration on disposal of discontinued operations	**22,126**	**22,126**	-	-
Total	**35,663**	**35,663**	22,900	22,900

Company

	2013		2012	
	Loans and receivables	**Total**	Loans and receivables	Total
	£000	**£000**	£000	£000
Trade receivables	**648**	**648**	7,956	7,956
Cash and cash equivalents	**11,281**	**11,281**	12,360	12,360
Deferred consideration on disposal of discontinued operations	**14,050**	**14,050**	-	-
Total	**25,979**	**25,979**	20,316	20,316

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

	2013		2012	
	Other financial liabilities at amortised cost	**Total**	Other financial liabilities at amortised cost	Total
	£000	**£000**	£000	£000
Borrowings/finance leases	**-**	**-**	13	13
Trade payables	**1,122**	**1,122**	2,162	2,162
Contingent consideration	**81**	**81**	3,740	3,740
Total	**1,203**	**1,203**	5,915	5,915

Company

	2013		2012	
	Other financial liabilities at amortised cost	**Total**	Other financial liabilities at amortised cost	Total
	£000	**£000**	£000	£000
Borrowings/finance leases	**-**	**-**	13	13
Trade payables	**501**	**501**	1,058	1,058
Contingent consideration	**81**	**81**	3,740	3,740
Total	**582**	**582**	4,811	4,811

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 (i.e. as prices) or indirectly (i.e. 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. However, deferred consideration and contingent consideration, which is measured at fair value with any charges reflected within the income statement, are measured under level 3. All other financial instruments are level 2.

Notes *(continued)*

19 Risk management *(continued)*

Fair value of financial assets and financial liabilities

Group

Financial assets

	2013 Book value £000	2013 Fair value £000	2012 Book value £000	2012 Fair value £000
Cash and cash equivalents	12,607	12,607	14,127	14,127
Deferred consideration on disposal of discontinued operations	22,126	22,126	-	-
Total financial assets	34,733	34,733	14,127	14,127

Financial liabilities

	2013 Book value £000	2013 Fair value £000	2012 Book value £000	2012 Fair value £000
Interest bearing finance leases	-	-	13	13
Contingent consideration	81	81	3,740	3,740
Total financial liabilities	81	81	3,753	3,753

Company

Financial assets

	2013 Book Value £000	2013 Fair value £000	2012 Book value £000	2012 Fair value £000
Cash and cash equivalents	11,281	11,281	12,360	12,360
Deferred consideration on disposal of discontinued operations	14,050	14,050	-	-
Total financial assets	25,331	25,331	12,360	12,360

Financial liabilities

	2013 Book value £000	2013 Fair value £000	2012 Book value £000	2012 Fair value £000
Interest bearing finance leases	-	-	13	13
Contingent consideration	81	81	3,740	3,740
Total financial liabilities	81	81	3,753	3,753

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 the amortised cost.

Notes *(continued)*

19 Risk management *(continued)*

Deferred consideration on disposal of discontinued operations

Deferred consideration is calculated based on expected future cash flows discounted at a risk-adjusted discount rate.

Trade and other payables and contingent consideration

The fair value of trade and other payables and contingent consideration 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. Contingent consideration is stated at fair value, 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.

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 and carrying amount 2013 £000**	Fair value and carrying amount 2012 £000
IAS 39 categories of financial instruments		
Cash and cash equivalents (note 14)	**12,607**	14,127
Trade receivables (note 13)	**930**	8,773
Deferred consideration on disposal of discontinued operations	**22,126**	-
Total financial assets	**35,663**	22,900

	Fair value and carrying amount 2013 £000	Fair value and carrying amount 2012 £000
Other interest-bearing loans and borrowings (note 15)	**-**	13
Trade payables (note 16)	**1,122**	2,162
Contingent consideration	**81**	3,740
Total financial liabilities measured at amortised cost	**1,203**	5,915
Total financial instruments	**34,460**	16,985

Notes *(continued)*

19 Risk management *(continued)*

Company	Fair value and carrying amount 2013 £000	Fair value and carrying amount 2012 £000
IAS 39 categories of financial instruments		
Cash and cash equivalents (note 14)	**11,281**	12,360
Trade receivables (note 13)	**648**	7,956
Deferred consideration on disposal of discontinued operations	**14,050**	-
Total financial assets	**25,979**	20,316

	Fair value and carrying amount 2013 £000	Fair value and carrying amount 2012 £000
Other interest-bearing loans and borrowings (note 15)	**-**	13
Trade payables (note 16)	**501**	1,058
Contingent consideration	**81**	3,740
Total financial liabilities measured at amortised cost	**582**	4,811
Total financial instruments	**25,397**	15,505

(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 and deferred consideration being the total of the carrying amount of loans and receivables shown above. The main risk within this balance is the trade receivables. The deferred consideration has been discounted at an appropriate discount rate.

Notes *(continued)*

19 Risk management *(continued)*

Group

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

	2013 £000	2012 £000
UK	833	2,817
Europe (not including UK)	27	5,567
USA	-	329
Rest of World	70	60
	930	8,773

Company

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

	2013 £000	2012 £000
UK	608	2,731
Europe (not including UK)	-	4,832
USA	-	333
Rest of World	40	60
	648	7,956

The directors believe that the most meaningful method of reporting credit risk by geographic region is based on the country of domicile of the debtor counterparty, e.g. the location of the payment processing company. An analysis of receivables by currency can be seen in note 19(d).

Group

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

	2013 £000	2012 £000
Third party receivables	930	6,545
Related parties	-	2,228
	930	8,773

Notes *(continued)*

19 Risk management *(continued)*

Company

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

	2013 **£000**	2012 £000
Third party receivables	**648**	5,728
Related parties	**-**	2,228
	648	7,956

Credit quality of financial assets and impairment losses

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

Group

	Gross 2013 £000	**Impairment 2013 £000**	Gross 2012 £000	Impairment 2012 £000
Not past due	**910**	**-**	6,351	-
Past due 0-30 days	**3**	**-**	-	-
Past due 31-120 days	**-**	**-**	194	-
More than 120 days	**17**	**-**	-	-
	930	**-**	6,545	-

None of the trade debtor balances are secured.

Company

	Gross 2013 £000	**Impairment 2013 £000**	Gross 2012 £000	Impairment 2012 £000
Not past due	**628**	**-**	5,534	-
Past due 0-30 days	**3**	**-**	-	-
Past due 31-120 days	**-**	**-**	194	-
More than 120 days	**17**	**-**	-	-
	648	**-**	5,728	-

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:

Group

		2013			
	Carrying amount	**Contractual cash flows £000**	**1 year or less £000**	**1 to <2years £000**	**2 to <5years £000**
	£000				
Non-derivative financial liabilities					
Finance lease liabilities	-	-	-	-	-
Trade payables	1,122	1,122	1,122	-	-
Contingent consideration	81	81	81	-	-
	1,203	1,203	1,203	-	-

Company

		2013			
	Carrying amount	**Contractual cash flows £000**	**1 year or less £000**	**1 to <2years £000**	**2 to <5years £000**
	£000				
Non-derivative financial liabilities					
Finance lease liabilities	-	-	-	-	-
Trade payables	501	501	501	-	-
Contingent consideration	81	81	81	-	-
	582	582	582	-	-

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 operates internationally and is exposed to foreign exchange risk, primarily in relation to the Euro, the US Dollar and the Australian Dollar. This risk arises due to the existence of recognised assets or liabilities which are denominated in a currency other than the functional currency of the Group. The Group aims to minimise exposure to foreign exchange by matching the currency of income and related expenditure flows where possible. Operating in a large number of different geographic markets ensures that the Group's results of operations are not unduly sensitive to the movement in a single exchange rate. Structured hedging of currency risk will be considered in the next twelve months.

Notes *(continued)*

19 Risk management *(continued)*

As the international revenues and costs of the Group grow, 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 2013

	Sterling £000	Euro £000	US Dollar £000	Other £000	Total £000
Cash and cash equivalents	6,378	2,198	2,290	1,741	12,607
Trade receivables	429	(86)	296	291	930
Trade payables	(689)	(310)	-	(123)	(1,122)
Balance sheet exposure	6,118	1,802	2,586	1,909	12,415

Sensitivity analysis

The Group is exposed to foreign exchange risk relating to translation of foreign currency balances, mainly between Sterling and Euro, and Sterling to US Dollar. The figures below show the impact on profit before tax of a change in the GBP to Euro and GBP to US Dollar exchange rates, assuming all other variables remaining constant. An increase in currency rate is defined as a strengthening of Euro and US Dollar versus Sterling. A positive effect on profit before tax constitutes a gain and a negative effect constitutes a cost.

	Increase in currency rate	Effect on profit before tax £m	Decrease in currency rate	Effect on profit before tax £m
2013				
Euro versus Sterling	+10%	0.2	-10%	(0.2)
US Dollar versus Sterling	+10%	(0.6)	-10%	0.7

20 Operating leases

Lease payments under operating leases recognised as an expense in the year were £474,000 (2012: £332,000).

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

	2013 £000	2012 £000
Group		
Less than one year	244	300
Due within 2 to 5 years	315	606
Company		
Less than one year	122	114
Due within 2 to 5 years	237	343

Notes *(continued)*

21 Commitments

Group and Company

There are no capital commitments at 31 December 2013 *(2012: nil)*.

22 Related parties

Group

Identity of related parties with which the Group has transacted

Expenses charged by related parties relate primarily to rent of premises and equipment. The companies listed are under the control of a director or former director of Cupid plc. 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 20.8 per cent of the voting shares of the Company at 31 December 2013. Details of the share options granted to directors are shown in the Remuneration Committee report. The compensation of key management personnel (including the directors) is as follows:

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Key management emoluments including social security costs	**1,135**	1,960	**1,135**	1,960
Share based payments	**122**	142	**122**	142
	1,257	2,102	**1,257**	2,102

The definition of key management includes additional management team members, and share based payments are now separately disclosed.

Other related party transactions

	Administrative expenses recharged to		Administrative expenses incurred from	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Interactive Digital Entertainment Ltd	-	2	-	50
Logicalware Ltd	-	2	-	-
Biebod Properties Ltd	-	-	-	46
Biebod (Ukraine) Ltd	-	-	**29**	160
Interactive Dating & Entertainment Ltd (formerly Amorix Ltd)	**13**	-	-	-
Maxymiser Ltd	-	-	**15**	-
	13	4	**44**	256

Notes *(continued)*

22 Related parties *(continued)*

Group *(continued)*

	Receivables outstanding		Payables outstanding	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Interactive Digital Entertainment Ltd	**-**	14	**-**	-
Logicalware Ltd	**-**	15	**-**	-
Interactive Dating & Entertainment Ltd (formerly Amorix Ltd)	**-**	2,199	**35**	-
Maxymiser Ltd	**30**	-	**-**	-
	30	2,228	**35**	-

Company

Identity of related parties with which the Company has transacted

Other related party transactions

	Administrative expenses recharged to		Administrative expenses incurred from	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Interactive Digital Entertainment Ltd	**-**	2	**-**	50
Logicalware Ltd	**-**	2	**-**	-
Biebod Properties Ltd	**-**	-	**-**	46
Biebod (Ukraine) Ltd	**-**	-	**29**	160
Interactive Dating & Entertainment Ltd (formerly Amorix Ltd)	**13**	-	**-**	-
Maxymiser Ltd	**-**	-	**15**	-
	13	4	**44**	256

	Receivables outstanding		Payables outstanding	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Interactive Digital Entertainment Ltd	**-**	14	**-**	-
Logicalware Ltd	**-**	15	**-**	-
Interactive Dating & Entertainment Ltd (formerly Amorix Ltd)	**-**	2,199	**35**	-
Maxymiser Ltd	**30**	-	**-**	-
	30	2,228	**35**	-

Notes *(continued)*

23 Post balance sheet events

There are no post balance sheet events to be reported.

24 Discontinued operations

On 15 July 2013, the casual dating division of the business was disposed of. The German business, WomenWeb GmbH, was disposed of on 31 December 2013 for a consideration of 10 euros.

Group

The assets disposed of were as follows:

	Casual assets £000	Germany £000	Total £000
Intangible assets	15,206	755	15,961
Property, plant and equipment	627	12	639
Deferred taxation	(1,751)	(16)	(1,767)
Other debtors and creditors	-	(388)	(388)
Net identifiable assets and liabilities	14,082	363	14,445
Consideration received, satisfied in cash	7,770	-	7,770
Expenses of sale	(1,118)	-	(1,118)
Net cash proceeds	6,652	-	6,652
Net cash inflow in respect of disposals	6,652	-	6,652
Net cash proceeds	6,652	-	6,652
Net proceeds (buyback of shares)	9,062	-	9,062
Deferred consideration	26,000	-	26,000
Discounting of future cash flows	(3,874)	-	(3,874)
	37,840	-	37,840
Gain (loss) on disposal (before tax)	23,758	(363)	23,395

The total tax charge attributable to the disposal of all discontinued operations amounts to £2,887,000.

12,379,472 shares were re-acquired as part of the disposal of the casual assets on 15 July 2013 and held as treasury shares. The value of these shares, based on the market price on 15 July 2013 of £0.73 per share, was £9,062,000.

The income statement, including comparatives, has been restated to show the discontinued activities separately from continuing activities. It is not possible to disclose the reportable segment represented by the discontinued operations because those operations related to all three reportable segments.

Cash flows from discontinued operations

	2013 £000	2012 £000
Net cash from operating activities	**6,122**	12,246
Net cash used in investing activities	**(2,859)**	(8,325)
	3,263	3,921

Notes *(continued)*

24 Discontinued operations *(continued)*

Company

The assets disposed of were as follows:

	Casual assets £000	Germany £000	Total £000
Intangible assets	5,534	-	5,534
Investments written off	11,600	742	12,342
Property, plant and equipment	629	-	629
Deferred taxation	(366)	-	(366)
Net identifiable assets and liabilities	17,397	742	18,139
Consideration received, satisfied in cash	4,849	-	4,849
Expenses of sale	(1,118)	-	(1,118)
Net cash proceeds	3,731	-	3,731
Net cash inflow in respect of disposals	3,731	-	3,731
Net cash proceeds	3,731	-	3,731
Net proceeds (buyback of shares)	9,062	-	9,062
Deferred consideration	16,510	-	16,510
Discounting of future cash flows	(2,460)	-	(2,460)
	26,843	-	26,843
Gain (loss) on disposal (before tax)	9,446	(742)	8,704