Company Registration No. 4578125 (England and Wales)

DILLISTONE GROUP PLC

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2007

DILLISTONE GROUP PLC

CONTENTS

DILLISTONE GROUP PLC

HIGHLIGHTS

"Our strong balance sheet and substantial cash reserves at the year end, together with the increasing value of recurring revenue contracts means that the group is relatively well protected against any short term slowdown in economic activity. The excellent start we have enjoyed in the first part of 2008 also assists in this regard, and the Board believes that the Group is well positioned for another successful year."

J McLaughlin – Executive Chairman

Revenue up 23% to £4.1m (2006: £3.3m)

Operating profit up 27% to £1.2m (2006: £0.9m)

Profit before tax expense up 30% to £1.2m (2006: £0.9m)

Basic earnings per share up 24% to 14.9p (2006: 12p)

Cash generated from operating activities up 43% to £1.2m (2006: £0.8m)

Cash balances up 185% to £1.5m (2006: £0.5m)

Recurring revenues increased by 29% to £1.67m, representing 41% of total turnover

Proposed final dividend of 6p per share recommended, making total dividend for year of 8.5p

Clients in over 50 countries world wide

DIRECTORS AND ADVISERS

Directors	J McLaughlin – Executive Chairman & Finance Director J S Starr – Managing Director R Howard – Operations Director A D James – Project Director M D Love – Non Executive Director
Secretary	R Howard
Company number	4578125
Registered office	3rd Floor 50-52 Paul Street London EC2A 4LB
Registered auditors	Saffery Champness Beaufort House 2 Beaufort Road Clifton Bristol BS8 2AE
Principal Bankers	Barclays Bank PLC 240 Whitechapel Road PO Box 14623 London E1 1SH
Solicitors	Osborne Clarke 2 Temple Back East Temple Quay Bristol BS1 6EG
Brokers & Nomad	Blue Oar Securities Plc 30 Old Broad Street London EC2N 1HT
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

BUSINESS REVIEW

Chairman's Statement

I am pleased to present the annual report of the company for the year ended 31 December 2007.

Financial Performance

The momentum we enjoyed in the year ended December 2006 flowed through into the year covered by this report, with record profits and revenue for the Group as a whole. We benefited from the considerable investment in the development of a new version of our FILEFINDER product which was launched in March 2007, winning some significant orders from new and existing clients. The financial results for the year ended 31 December 2007 show substantial growth in both revenue and profits over 2006.

Revenue in the year increased by 23% to £4,066,463 *(2006 - £3,301,362),* and profits before tax increased by 30% to £1,196,213 *(2006 - £923,118)* despite severe weakening of both the Australian and US Dollars against the pound, which accounted for approximately 26% sales. Sales and profits growth in both the UK and European markets have been particularly strong. The USA saw the effects of a weakening dollar impact on the results, together with a slowdown in overall business activity. In late 2006 we decided to offer our product on a "Software as a Service" basis in the US market and, whilst this has a negative impact on both revenue and results in the short term, it has improved the proportion and value of the revenue earned on a recurring basis, which will have a positive long term impact on quality of earnings.

Recurring revenues (mainly arising from support agreements) increased by 29% in the year, from £1.288m to £1.666m, whilst non recurring revenues (mainly from new license sales) increased by 19% from £2.014m to £2.401m. Recurring revenues now comprise 41% of Group revenue (2006 - 39%) and help to provide a cushion against any slowdown, which may arise in new business as a result of a slowdown in overall economic activities.

Operating margins were enhanced from 28% in 2006 to 29% in 2007, reflecting the strong sales growth together with tight control over operating costs.

Cashflow has continued to reflect the profitable performance of the business, and at the end of the year we held cash balances of £1,533,649, compared with £538,591 at the beginning of the year. The cash balance at 31 December 2007 reflects the payment of an interim dividend of £135,000, and capital expenditure of some £110,741. The Group has no borrowings whatsoever.

Earnings per share increased by 24% to 14.90p per share *(2006 - 12.00p per share).* We paid an interim dividend of 2.5p per share in October 2007, and the board has recommended that a final dividend of 6p per share should be paid, subject to shareholder approval, on 23 May 2008 to holders on the register on 25 April. Shares will trade Ex-Dividend from 23 April 2008. The total dividend for the year will be 1.75 times covered by earnings, a little less than envisaged at the time of the flotation, but covered some 2.34 times by the cash generation of the business.

Staff

As part of the flotation process, share options were granted to all our staff through both EMI approved and unapproved share schemes. I am pleased that we were able to introduce these schemes on favourable terms for them, which is particularly important in a services business and I look forward to welcoming them as shareholders in due course. During the year we granted additional options to a small number of employees, and at the end of the year, our staff held options over 347,934 ordinary shares in the company, representing 6% of the current issued share capital after exercise of the options. These options will mature from May 2009, and demonstrate the value placed on our staff, who have performed outstandingly well throughout the year.

Prospects

We announced in February 2008 that the order intake in the final quarter of 2007 had been the highest ever recorded by the group since its formation, and I am pleased to be able to confirm that this positive trend has continued. Order intake for the year as a whole was some 31% ahead of the previous year, and at the year end we held the highest value of confirmed orders we have ever experienced. This has led to a very good start to the current year. However, the effects of the global credit squeeze appear to have made larger clients more apprehensive about committing themselves to ordering new systems, certainly in the short term, and the outlook for the longer term in the financial recruitment markets is less visible at the present time.

Our strong balance sheet and substantial cash reserves at the year end, together with the increasing value of recurring revenue contracts means that the group is relatively well protected against any short term slowdown in economic activity. The excellent start we have enjoyed in the first part of 2008 also assists in this regard, and the Board believes that the Group is well positioned for another successful year.

Jim McLaughlin
15 April 2008

Managing Director's Report

2007 was another excellent year with significant improvements in revenues, profits and earnings.

Sales growth was achieved in both recurring and non recurring revenues. The 29% increase in recurring revenues was delivered as a result of both strong support sales and an increasing number of new system sales, delivered on a "Software as a Service" basis.

The period saw us win 153 new business contracts which were implemented in 37 countries. Our global spread is particularly pleasing – we now have clients in over 50 countries - with our largest ten implementations in 2007 featuring clients in UK, USA, Denmark, India, Asia Pacific and Russia along with a pan-EMEA business.

The emerging markets proved to be particularly important to us, with 7 of our 25 largest implementations coming from the Middle East, Asia, Eastern Europe and Central and Southern America. These contract wins are particularly significant as they often confer on us "market leadership" status in these regions. As these markets continue to grow, we should enjoy continued success as a result of these early wins.

Also pleasing was the fact that 2007 saw us attract a record number of clients from direct competitors. We believe that this is partly down to our ongoing product development, but also down to a desire amongst the leading search firms to invest in systems from a global leader. The corporate sector continues to be a small but growing niche for us, with a further Fortune 100 company introducing our system in 2007 for its internal talent acquisition.

DIVISIONAL REVIEW

UK, Middle East and India

Our home region once again generated excellent results, with a 52.22% increase in profit. It should be noted, however, that a number of the larger clients invoiced from the UK – in particular Spengler Fox – featured significant international work. The results of these contracts therefore fall within the accounts of our UK subsidiary, even though the profits were actually earned overseas. In addition to Spengler Fox, significant contract wins in the UK also included Hays Executive – the Executive Search division of the UK's largest Recruitment firm – and Norman Broadbent. Each of these firms switched to FILEFINDER from a direct competitor.

Europe

Our European business also performed to an exceptional level, with year on year profits up 32%. European executive search firms are often smaller than their counterparts in the UK and US, and so this performance reflects volume of new business wins rather than scale. Our performance in Russia and eastern Europe was particularly pleasing, with a number of significant contract wins.

Asia Pacific

Our Australia and Asia pacific business unit again performed very well, with year on year results up 46.8%. Strategically important contract wins in the region included The Wright Company and Jo Fisher Executive Search. The region also benefited from a major marketing push in November, when a conference organised by the Group in Hong Kong attracted over 200 delegates from 19 countries to discuss Executive Talent Acquisition in Asia. The event proved significant, and provided us with an opportunity for exclusive exposure to our FILEFINDER product to leading firms in the region whilst also contributing a small profit.

United States

Whilst the headline performance of our US business unit was disappointing, this does not reflect fully the actual achievements of the business. Profits fell by 9.3% based on virtually static sales figures, but in practice, whilst realised revenues were flat, incoming orders grew significantly. Our decision to offer FILEFINDER on a "software as a service" model in the US (where clients rent the software rather than purchase it) caused us some short term pain but means that 57% of revenues should recur in 2008. In 2007, the percentage was just 29%. Clearly, this decision should go a long way towards mitigating the effects of the economic downturn in the region. A number of major wins in the region are subject to non-disclosure agreements, but include a Fortune 100 company and a number of search firms – including one internationally known **-** which are switching to FILEFINDER from US based competitors.

PRODUCT STRATEGY

2007 was a major year in the development of FILEFINDER. In March, we launched FILEFINDER 8. FILEFINDER 8 is the latest iteration of our main product and features both a new interface and extensive new functionality. This was followed in September by the launch of a new release of our "FFImport" module. The new FFImport, compared to its predecessor, features significant additional functionality for our clients and a lower cost of implementation for us. As the year closed, our next generation tool for handheld devices, FFMobile, was in the final stages of beta testing and was released in January 2008. FFMobile is provided as an add-on to our core FILEFINDER platform.

We believe that FILEFINDER is used by more Executive Search firms than any other product, and are committed to a development path that will maintain that position.

Beyond FILEFINDER, we continue to develop a number of additional products and services which are designed to both increase brand awareness of our organisation whilst also providing additional revenue streams. In 2007 we ran conferences in London and Hong Kong and provided "executive search training skills" courses in a number of countries. Between the training we provide in FILEFINDER and our more generic courses in executive search skills, we believe we probably provide third party training to more retained executive search professionals than any other organization. 2008 will see us extend our conference and training portfolio with events in New York, Frankfurt and London and the launch of online webinar training.

PEOPLE

Our performance in 2007 reflects the fact that our group companies are made up of an exceptional team of people. I'd like to take this opportunity to thank them for all of their efforts during the year. For the business to continue to perform it is important that we retain and develop our staff and, to that end, we issued new options over 30,000 shares to new members of staff and existing option holders whose responsibilities within the business had increased since they were awarded their original options before the flotation. We are confident that if we can continue to retain our key staff, then our business will continue to perform better than others in our sector.

CORPORATE DEVELOPMENT

The board is acutely aware that the Group's future success is dependent on our ability to continue to meet the needs of the executive recruitment sector. As such, it continues to actively consider ways in which this may be done – through either the development of existing products or the creation of new ones. We have a strong balance sheet and high cash reserves with which to pursue these goals and we continue to consider opportunities to take advantage of these assets in a way which would enhance the overall group position, its earnings and overall profitability.

Jason Starr
15 April 2008

The directors present their report and financial statements for the year ended 31 December 2007.

Principal activities and review of the business

The principal activity of the company continued to be that of a parent company. The principal activity of the Group is the sale of specialist computer software and the provision of related support services. A full review of trading and future development is presented in the Chairman's statement and Managing Director's Review.

Results and dividends

The consolidated income statement for the year is set out on page 16.

An interim dividend of 2.5p per share (based on 5,400,000 shares in issue at the time) was approved on 13 September 2007 and paid on 19 October 2007. A final dividend of 6p per share was approved by the board on 15 April 2008 and will be paid on 23 May 2008, subject to approval by the shareholders.

Directors

The following directors have held office since 1 January 2007:
J McLaughlin - Chairman - retires by rotation
J S Starr
R Howard - retires by rotation
A D James
M D Love (Non Executive)

The directors served throughout the year. The interests of the directors (including family interests) in the share capital of the company are listed on page 13.
J McLaughlin and R Howard, who are proposed for re-election at the forthcoming AGM, have service contracts with a 1 year notice period.

Principal shareholders

At the date of this report the directors have been notified of the following shareholdings in excess of 3% of the company's issued share capital:

	Ordinary shares of 5 pence each	**Percentage**
R Howard	1,162,461	22%
J S Starr	1,162,461	22%
J McLaughlin	996,888	18%
G Fearnley	331,145	6%
R Howells	331,145	6%
M Bryan	325,145	6%
M Hill	325,145	6%
CFS Independent	244,000	5%

Charitable donations

During the year the Group made the following payments:

	2007	2006
	£	£
Charitable donations	725	450

Creditor payment policy

The Group agrees payment terms with individual suppliers which vary according to the commercial relationship and the terms of the agreement reached. Payments are made to suppliers in accordance with the terms agreed. The number of supplier days represented by trade payables at 31 December 2007 was 32 (31 December 2006: 42).

Auditors

A resolution proposing that Saffery Champness be re-appointed as auditors to the Company will be put to the forthcoming Annual General Meeting.

Directors’ responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The directors are responsible for preparing the Annual Report and the financial statements in accordance with the Companies Act 1985. The directors prepare financial statements for the group and the company in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Statement of disclosure to auditor

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

(a) so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware, and;

(b) each director has taken all the steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the board

R Howard

15 April 2008
Secretary

CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2007

Corporate governance

The directors intend, so far as possible and to the extent appropriate given the company's size and the constitution of the board, to comply with the combined code prepared by the committee on corporate governance chaired by Sir Ronald Hampel and which is appended to the listing rules of the Financial Services Authority. The board has separate roles for chairman and chief executive.

The board has established an audit committee, which comprises M D Love and J McLaughlin, and a remuneration committee which also comprises M D Love, with formally delegated responsibilities.

The audit committee meets at least twice a year and is responsible for ensuring that the financial performance of the company is properly monitored and reported. It is also responsible for appointing the auditors, ensuring the auditors' independence is not compromised, and reviewing the reports on the company from the auditors in relation to the accounts and internal control systems.

The remuneration committee is responsible for reviewing the performance of the executive directors, and for determining the scale and structure of their remuneration packages and the basis of their service contracts bearing in mind the interests of shareholders. The committee also monitors performance and approves the payment of performance related bonuses and the granting of share options.

The board has not established a nomination committee as it regards the approval and appointment of directors (whether executive or non-executive) as a matter for consideration by the whole board.

Internal control

The combined code introduced a requirement that the directors' review should be extended to cover not just internal financial controls but all controls including operations, compliance and risk management. It reports as follows:

The directors are responsible for the Group's system of internal control. Although no system of internal control can provide absolute assurance against material misstatement or loss, the company's system is designed to provide the directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately. The key procedures that have been established and which are designed to provide effective internal control are as follows:

Management structure: the board of directors meets regularly and minutes of its meetings are maintained.

Financial reporting: budgets are prepared and reviewed by executive management. Any material variances to actual results are investigated.

Investment appraisal: the company has a clearly defined framework for capital expenditure requiring approval by key personnel and the board where appropriate.

The board has reviewed the effectiveness of the system of internal controls and it has considered the major business risks and the control environment. No significant control deficiencies were reported during the period.

No weaknesses in internal control have resulted in any material losses, contingencies or uncertainty which would require disclosure, as recommended by the guidance for directors on reporting on internal control.

Remuneration policy

The objective of the company's remuneration policy is to attract, motivate and retain high quality individuals who will contribute significantly to shareholder value. The remuneration committee decides on the remuneration of the directors and other senior management, which comprises a basic salary, bonus scheme, share options and medium term incentive plan. The board as a whole decide the remuneration of the non-executives.

Directors' remuneration

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

	Salary & Fees	Bonus	Pension contributions	Total
	£	£	£	£
Executive directors				
J McLaughlin	37,500	14,940	-	52,440
J S Starr	100,000	29,880	900	130,780
R Howard	91,000	26,890	720	118,610
A D James	67,500	21,290	1,575	90,365
Non-executive director				
M D Love	9,000	-	-	9,000
	305,000	93,000	3,195	401,195

Share options

It is the policy of the company that key employees are granted options over the shares of the company. The company grants options under an Inland Revenue approved scheme and also under an unapproved scheme. The share options granted to the directors are as follows:

	Number of shares under option at 31 December 2006 & 31 December 2007	Exercise price	Date
A James	37,143	16.154p	3 May 2006

Directors' Interests

The interests of the directors (including family interests) in the share capital of the company are set out below

	Ordinary shares of 5 pence each	
	At 31 December 2007	At 31 December 2006
J McLaughlin	993,433	1,045,712
J S Starr	1,159,006	1,220,000
R Howard	1,159,006	1,220,000
A D James	1,200	-

We have audited the Group and parent company financial statements ("the financial statements") of Dillistone Group PLC for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated and company cash flow statements, the consolidated and company statements of changes in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' report and the Chairman's statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;

- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007;

- the financial statements have been properly prepared in accordance with the Companies Act 1985;

- the information given in the Directors' Report is consistent with the financial statements.

Saffery Champness

Chartered Accountants
Registered Auditors

Beaufort House
2 Beaufort Road
Clifton
Bristol
BS8 2AE

Date:

DILLISTONE GROUP PLC

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 £	2006 £
Revenue	**3**	4,066,463	3,301,362
Cost of sales		(236,951)	(274,481)
Gross profit		3,829,512	3,026,881
Administrative expenses		(2,659,390)	(2,107,724)
Results from operating activities	**4**	1,170,122	919,157
Financial income	**5**	26,091	3,961
Profit before tax		1,196,213	923,118
Tax expense	**6**	(391,838)	(285,913)
Profit for the year		804,375	637,205

Earnings per share – from continuing activities

Basic	**7**	14.90p	12.00p
Diluted	**7**	14.05p	11.63p

DILLISTONE GROUP PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

	Share capital £	Share premium £	Retained earnings £	Share option £	Foreign exchange £	Total £
Balance at 31 December 2005	105,000	106,237	427,238	-	14,822	653,297
Profit for the year ended 31 December 2006	-	-	637,205	-	-	637,205
Bonus issue from reserves	155,000	(106,237)	(48,763)	-	-	-
Issue of share capital	10,000	240,000	-	-	-	250,000
Costs of the issue	-	(240,000)	(936)	-	-	(240,936)
Fair value of equity settled share option expense	-	-	-	13,316	-	13,316
Exchange differences on translation of overseas operations	-	-	-	-	(21,002)	(21,002)
Dividends paid	-	-	(535,096)	-	-	(535,096)
Balance at 31 December 2006	270,000	-	479,648	13,316	(6,180)	756,784
Profit for the year ended 31 December 2007	-	-	804,375	-	-	804,375
Fair value of equity settled share option expense	-	-	-	13,462	-	13,462
Exchange differences on translation of overseas operations	-	-	-	-	23,916	23,916
Dividends paid	-	-	(135,000)	-	-	(135,000)
Balance at 31 December 2007	270,000	-	1,149,023	26,778	17,736	1,463,537

DILLISTONE GROUP PLC

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

	Share capital £	**Share premium £**	**Retained earnings £**	**Share option £**	**Total £**
Balance at 31 December 2005	105,000	106,237	88,023	-	299,260
Profit for the year ended 31 December 2006	-	-	585,105	-	585,105
Bonus issue from reserves	155,000	(106,237)	(48,763)	-	-
Issue of share capital	10,000	240,000	-	-	250,000
Costs of the issue	-	(240,000)	(936)	-	(240,936)
Fair value of equity settled share option expense	-	-	-	13,316	13,316
Dividends paid	-	-	(535,000)	-	(535,000)
Balance at 31 December 2006	270,000	-	88,429	13,316	371,745
Profit for the year ended 31 December 2007	-	-	226,168	-	226,168
Fair value of equity settled share option expense	-	-	-	13,462	13,462
Dividends paid	-	-	(135,000)	-	(135,000)
Balance at 31 December 2007	270,000	-	179,597	26,778	476,375

DILLISTONE GROUP PLC

CONSOLIDATED AND COMPANY BALANCE SHEETS
AS AT 31 DECEMBER 2007

		Group		Company	
	Notes	2007	2006	2007	2006
ASSETS		£	£	£	£
Non-current assets					
Intangible assets	**9**	639,835	630,271	-	-
Property plant and equipment	**10**	155,390	181,476	-	-
Investments	**11**	-	-	1,623,264	1,623,264
		795,225	811,747	1,623,264	1,623,264
Current assets					
Inventories	**12**	2,334	21,210	-	-
Trade and other receivables	**13**	1,284,190	827,633	292,265	141,025
Cash and cash equivalents		1,533,649	538,591	4,365	9,471
		2,820,173	1,387,434	296,630	150,496
Total assets		3,615,398	2,199,181	1,919,894	1,773,760
EQUITY AND LIABILITIES					
Equity					
Share capital	**15**	270,000	270,000	270,000	270,000
Retained earnings		1,149,023	479,648	179,597	88,429
Share option reserve	**17**	26,778	13,316	26,778	13,316
Translation reserve		17,736	(6,180)	-	-
Total equity		1,463,537	756,784	476,375	371,745
Liabilities					
Non current liabilities					
Deferred tax liability	**6**	3,000	8,603	-	-
Current liabilities					
Trade and other payables	**14**	1,848,038	1,205,219	1,443,519	1,402,015
Current tax payable		300,823	228,575	-	-
Total liabilities		2,151,861	1,442,397	1,443,519	1,402,015
Total liabilities and equity		3,615,398	2,199,181	1,919,894	1,773,760

The financial statements were approved by the board of directors and authorised for issue on 15 April 2008. They were signed on its behalf by

J S Starr - Director

J McLaughlin - Director

DILLISTONE GROUP PLC

CONSOLIDATED CASH FLOW STATEMENT
AS AT 31 DECEMBER 2007

Operating activities	**2007 £**	**2007 £**	**2006 £**	**2006 £**
Profit from operations	1,170,122		919,157	
Less taxation paid	(319,590)		(287,323)	
Adjustment for				
Depreciation and amortisation	126,606		94,582	
Share option expense	13,462		13,316	
Loss on disposal	657		1,117	
Operating cash flows before movement in working capital	991,257		740,849	
(Increase) in receivables	(456,557)		(122,501)	
Decrease in inventories	18,876		11,204	
Increase in payables	637,216		201,735	
Net cash generated from operating activities		1,190,792		831,287
Investing activities				
Interest received	26,091		3,961	
Purchases of property plant and equipment	(35,653)		(191,485)	
Investment in development costs	(75,088)		(73,888)	
Net cash used in investing activities		(84,650)		(261,412)
Financing activities				
Proceeds from issue of share capital	-		250,000	
Share capital issue costs	-		(240,936)	
Dividends paid	(135,000)		(535,096)	
Net cash used by financing activities		(135,000)		(526,032)
Net increase in cash and cash equivalents		971,142		43,843
Cash and cash equivalents at beginning of year		538,591		515,750
Effect of foreign exchange rate changes		23,916		(21,002)
Cash and cash equivalents at end of year		1,533,649		538,591

DILLISTONE GROUP PLC

COMPANY CASH FLOW STATEMENT
AS AT 31 DECEMBER 2007

Operating activities	2007 £	2007 £	2006 £	2006 £
Profit from operations	226,168		585,105	
Less taxation paid	-		-	
Adjustment for				
Fair value of share option expense	13,462		13,316	
Dividend in specie from subsidiary	-		(1,623,164)	
Write down investment in subsidiary	-		1,146,689	
Operating cash flows before movements in working capital	239,630		121,946	
(Increase) in receivables	(151,240)		(141,021)	
Increase in payables	41,504		461,211	
Net cash generated from operating activities		129,894		442,136
Financing activities				
Proceeds from issue of share capital	-		250,000	
Share capital issue costs	-		(240,936)	
Dividends paid	(135,000)		(535,000)	
Net cash used in financing activities		(135,000)		(525,936)
Net (decrease)/increase in cash and cash equivalents		(5,106)		(83,800)
Cash and cash equivalents at beginning of year		9,471		93,271
Cash and cash equivalents at end of year		4,365		9,471

Dillistone Group PLC (the "company") is a company incorporated in England and Wales. The financial statements are presented in Pounds sterling, and were authorised for issue by the directors on 15 April 2008.

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

Both the Group financial statements and the company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). In publishing the company financial statements here together with the Group financial statements, the company has taken advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes in these financial statements.

1. Accounting policies

1.1 Basis of accounting

The financial statements have been prepared on the historical cost basis.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions that affect the application of the policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results for which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

Key areas of judgement are considered to relate to the carrying values of goodwill and development costs (see notes 1.5 and 1.7).

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

1.2 Basis of consolidation

The consolidated financial statements include the financial statements of Dillistone Group PLC and its subsidiaries. There are no associates or joint ventures to be considered.

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The Group uses the purchase method of accounting to account for the acquisition of subsidiaries.

1.3 Revenue

Revenue is recognised in the income statement as follows:

- licensing income is recognised when the license has been installed and is available for use by the customer
- income from training and installation is recognised when the training or installation occurs
- support income is recognised over the period of the contract.

1. Accounting policies (continued)

1.4 Share based payments

The company operates two share option schemes. The fair value of the options granted under these schemes is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period at the end of which the option holder may exercise the option.

The fair value of the options granted is measured using the Black-Scholes model, adjusted to take into account sub-optimal exercise factor and other flaws in Black Scholes, and taking into account the terms and conditions upon which the incentives were granted.

1.5 Goodwill

Goodwill is determined by comparing the amount paid, including the full undiscounted value of any deferred and contingent consideration, on the acquisition of a subsidiary or associated undertaking and the group's share of the aggregate fair value of its separate net assets. Goodwill is capitalised and is subject to annual impairment reviews in accordance with applicable accounting standards.

1.6 Segment reporting

A geographical segment is a distinguishable component of the group engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

A business segment is a distinguishable component of the group that provides products or services that are different from those of other business segments.

1.7 Research and development

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

Capitalised product development expenditure is amortised over its useful economic life of 3 years.

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

1. Accounting policies (continued)

1.8 Depreciation

Property, plant and machinery are stated at cost less accumulated depreciation. Depreciation on these assets is provided at rates estimated to write off the cost, less estimated residual value, of each asset over its expected useful life as follows:

Leasehold land and buildings	over the remaining lease period
Office and computer equipment	50% straight line
Fixtures, fittings & equipment	25% straight line

1.9 Financial assets

The Group classifies its financial assets under the definitions provided in International Accounting Standard 39 (IAS 39) Financial Instruments: Recognition and measurement, depending on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The possible categories under IAS 39 are: at fair value through profit and loss, loans and receivables, and available for sale. Management consider that the group's financial assets fall under the 'loans and receivables' category.

Loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The group's loans and receivables comprise trade receivables, intercompany trading balances, and cash and cash equivalents.

1.10 Financial liabilities

The Group classifies its financial liabilities under the definitions provided in IAS 39, either as financial liabilities at fair value through profit or loss, or financial liabilities measured at amortised cost. Management consider that the group's financial liabilities fall under the 'financial liabilities measured at amortised cost' category. The group's 'financial liabilities measured at amortised cost' comprise trade payables, intercompany trading balances, and accruals.

1.11 Fixed asset investments

Investments in subsidiary companies are included at cost in the accounts of the company less any amount written off in respect of any permanent impairment in value.

1.12 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.13 Inventory

Inventory is valued at the lower of cost and net realisable value on a FIFO basis.

1.14 Trade and other receivables

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

1.15 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

1. Accounting policies (continued)

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

1.17 Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares of options are shown in equity as a deduction, net of tax, from the proceeds.

1.18 Foreign currency translation
Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the income statement.

On consolidation, the assets and liabilities of the Group's overseas subsidiaries are translated at exchange rates prevailing on the balance sheet date. Exchange differences arising on the translation of overseas subsidiaries are classified as equity and transferred to the Group's translation reserve.

1.19 Deferred taxation
Deferred tax is provided in full in respect of temporary differences between the treatment of certain items for taxation and accounting purposes. Deferred tax liabilities are not material against the available losses brought forward and are therefore not reported.

Deferred tax assets are recognised where unused tax losses are available to offset against future profits and where there is convincing evidence that sufficient taxable profits will be available against which the unused tax losses can be offset.

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

2. Financial risk management

2.1 Financial risk factors

There are a number of risks and uncertainties which could have an impact of the Group's long term performance and cause actual results to differ materially from expected and historical results. The directors seek to identify material risks and put in place policies and procedures to mitigate any exposure.

(i) Competitor risk

The market for staffing software is extremely fragmented with a large number of small suppliers operating in all of the Group's geographical markets. Very few of these suppliers have the necessary financial, technical and marketing resource to be able to sustain their competitive position. However the competition may intensify through consolidation or new entrants to the market and in order to mitigate this risk and maintain competitive position management work to build strong customer relationships and maintain and develop the Group's products ahead of the competition.

2. Financial risk management (continued)

(ii) Economic risk
The staffing industry has a reputation for being vulnerable to the cyclical nature of the economy. The directors have taken a number of steps to mitigate any perceived risk such as geographical expansion and product development.

(iii) Foreign currency
The Group's foreign operation trades in its own currencies. As a result the Group is not subject to any significant foreign exchange transactional exposure except when repatriating profits. The Group's main exposure therefore arises from the translation of overseas results into sterling. The Group only seeks to remit profits to the UK when the exchange rates are appropriate. In light of this the Group does not hold any sophisticated hedging instruments such as derivatives.

(iv) Interest rate risk
The Group has a limited exposure to interest rate volatility. The Group has no debt and the only interest rate exposure is therefore asset based. The principal risk therefore is lost opportunity. This is mitigated by a twice weekly treasury review by the Board.

(v) Credit risk
A significant proportion of customers are multinational, or blue chip organisations. Historically this cash collection profile has been excellent, and the bad debt charge has also historically been very low. As a result of a review of the Group's banking arrangements during the year, it was decided that there was an unacceptable exposure to a US bank in Dillistone Systems (US) Inc. Accordingly these banking arrangements were moved to HSBC's New York office.

(vi) Liquidity risk
The trade and other payables as set out in note 14, indicates that all such liabilities are payable within 12 months. The directors consider there to be no significant liquidity risks due to the significant cash balances of the Group.

2.2 Quantitative risk analysis

Foreign currency
At the year end, the Group had assets totalling £830,727 and liabilities totalling £279,935 denominated in Euros (2006: assets totalling £279,076 and liabilities totalling £206,382), assets totalling £526,291 and liabilities totalling £297,678 denominated in US Dollars (2006: assets totalling £237,684 and liabilities totalling £212,789) and assets totalling £456,474 and liabilities totalling £7,279 denominated in Australian Dollars (2006: assets totalling £203,903 and liabilities totalling £3,241). If each of the exchange rates weakened by 5% as at the year end, the impact on the income statement would be a decrease in profits of £4,494 (2006: decrease of £3,947).

Interest rate risk
At the year end, the Group had positive cash balances totalling £1,533,649 (2006: £538,591). Had interest rates been 1% lower during the financial year, the impact on profit would have been a decrease in profit for the year of £3,662 (2006: decrease of £824).

2. Financial risk management (continued)

Credit risk

The ageing profile of trade receivables as at the year end is as follows:

	2007	2006
	£	£
Current	1,100,977	713,048
1 - 60 days overdue	56,576	1,684
More than 60 days overdue	17,399	7,554
Total	1,174,952	722,286

Based on knowledge and previous experience of the customer base, the directors consider the risk of non recovery of both current and overdue trade receivable balances to be low.

2.3 Carrying value of financial assets and liabilities

The carrying values of loans and receivables and financial liabilities are considered approximate to their fair values.

3. Segment reporting

Geographical segments

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

For the year ended 31 December 2007

	UK	**Europe**	**USA**	**Asia-Pacific**	**Total**
	£	**£**	**£**	**£**	**£**
Segment revenue	2,180,172	845,745	633,597	406,949	4,066,463
Depreciation and amortisation expense	78,308	30,198	10,449	7,651	126,606
Segment result	536,428	656,827	185,339	258,064	1,636,658
Central costs					(466,536)
Operating profit					1,170,122
Additions of non-current assets	101,332	2,609	4,704	2,096	110,741
Segment assets	1,264,901	838,202	559,533	458,369	3,121,005
Central assets - goodwill					494,393
Total assets					3,615,398
Segment liabilities	1,260,878	447,143	337,624	106,216	2,151,861

For the year ended 31 December 2006

	UK	**Europe**	**USA**	**Asia-Pacific**	**Total**
	£	**£**	**£**	**£**	**£**
Segment revenue	1,747,803	640,483	598,807	314,269	3,301,362
Depreciation and amortisation expense	55,381	20,720	11,425	7,056	94,582
Segment result	352,401	496,766	204,279	175,800	1,229,246
Central costs					(310,089)
Operating profit					919,157
Additions of non-current assets	226,972	14,335	14,854	7,760	263,921
Segment assets	860,148	309,121	294,350	241,169	1,704,788
Central assets - goodwill					494,393
Total assets					2,199,181
Segment liabilities	737,906	373,944	275,339	55,208	1,442,397

3. Segment reporting (continued)

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

Revenue

	2007	**2006**
	£	**£**
Recurring income	1,665,870	1,287,531
Non-recurring income	2,400,593	2,013,831
	4,066,463	3,301,362

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

It is not possible to allocate assets and additions between recurring and non-recurring income.

4. Result from operating activities

	2007	**2006**
	£	**£**
Result from operating activities is stated after charging:		
Depreciation	61,082	34,887
Amortisation	65,524	59,695
Loss on foreign exchange transactions	-	(4,537)
Operating lease rentals - land and buildings	91,365	89,384
Money purchase pension contributions	31,966	17,885
Fees receivable by the group auditors:		
Audit of financial statements	15,300	14,700
Other services:		
Audit of accounts of subsidiaries of the company	12,150	9,800
Other services relating to taxation	4,000	3,300
Services relating to corporate finance transactions entered into by the company	-	77,326
All other services	3,550	4,325

5. Financial income

	2007 £	2006 £
Interest receivable	26,091	3,961

6. Tax expense

	2007 £	2006 £
Current tax	379,533	271,606
Adjustment to previous period	17,908	2,649
Deferred tax	(5,603)	11,658
Income tax expense for the year	391,838	285,913
Factors affecting the tax charge for the year		
Profit before tax	1,196,213	923,118
Effective rate of taxation	30.37%	30.37%
Profit before tax multiplied by the effective rate of tax	363,290	280,351
Effects of :		
Consolidation adjustments	-	(15,748)
Non deductible expenses	(3,470)	12,537
Adjustments for overseas tax paid	(904)	-
Depreciation and amortisation disallowed	29,881	9,676
Capital allowances	(9,264)	(15,210)
Adjustments to previous periods	17,908	2,649
Deferred tax liability (reduced) / recognised	(5,603)	11,658
Tax expense	391,838	285,913

Deferred tax provided in the financial statements is as follows:

	Group		Company	
	2007 £	2006 £	2007 £	2006 £
Accelerated capital allowances	3,000	8,603	-	-

7. Earnings per share

	2007	2006
Profit attributable to ordinary shareholders	£804,375	£637,205
Weighted average number of shares	5,400,000	5,309,890
Basic earnings per share	14.90 pence	12.00 pence
Weighted average number of shares after dilution	5,726,811	5,481,201
Fully diluted earnings per share	14.05 pence	11.63 pence

8. Profit for the financial year

As permitted by section 230 of the Companies Act 1985, the holding group's profit and loss account has not been included in these financial statements. The profit for the financial year for the holding company was £226,168 (2006: £585,105).

9. Intangible assets

Group	Development costs	Goodwill	Total
	£	£	£
Cost			
At 1 January 2006	229,419	494,393	723,812
Additions	73,888	-	73,888
At 31 December 2006	303,307	494,393	797,700
Additions	75,088	-	75,088
At 31 December 2007	378,395	494,393	872,788
Amortisation			
At 1 January 2006	107,734	-	107,734
Charge for the year	59,695	-	59,695
At 31 December 2006	167,429	-	167,429
Charge for the year	65,524	-	65,524
At 31 December 2007	232,953	-	232,953
Carrying amount			
At 31 December 2007	145,442	494,393	639,835
At 31 December 2006	135,878	494,393	630,271
At 31 December 2005	121,685	494,393	616,078

10. Property, plant and equipment

Group	Land and buildings	Office & computer equipment	Fixtures and fittings	Total
	£	£	£	£
Cost				
At 1 January 2006	-	123,632	21,115	144,747
Additions	163,073	28,412	-	191,485
Disposals	-	(1,653)	-	(1,653)
At 31 December 2006	163,073	150,391	21,115	334,579
Additions	-	31,494	4,159	35,653
Disposals	-	(3,874)	-	(3,874)
At 31 December 2007	163,073	178,011	25,274	366,358
Depreciation				
At 1 January 2006	-	97,637	21,115	118,752
Charge for the year	12,490	22,397	-	34,887
Eliminated on disposal	-	(536)	-	(536)
At 31 December 2006	12,490	119,498	21,115	153,103
Charge for the year	32,329	28,466	287	61,082
Eliminated on disposal	-	(3,217)	-	(3,217)
At 31 December 2007	44,819	144,747	21,402	210,968
Carrying Amount				
At 31 December 2007	118,254	33,264	3,872	155,390
At 31 December 2006	150,583	30,893	-	181,476
At 31 December 2005	-	25,995	-	25,995

11. Non-current asset investments

Company

	Unlisted investments £
Cost	
At 1 January 2006	1,146,789
Additions	1,623,164
At 31 December 2006	2,769,953
Elimintated	(1,146,689)
At 31 December 2007	1,623,264
Provision for impairment	
At 1 January 2006	-
Impairment of investment	1,146,689
At 31 December 2006	1,146,689
Elimintated	(1,146,689)
	-
Carrying amount	
At 31 December 2007	1,623,264
At 31 December 2006	1,623,264
At 31 December 2005	1,146,789

In the year ended 31 December 2006, as a result of a dividend in specie from its subsidiary undertaking Custom Business Systems Limited, the company acquired the share capital of Dillistone Systems Limited, and Dillistone Systems (US) Inc. As a result of the dividend in specie the carrying value of the investment in Custom Business Systems Limited was considered to be impaired and accordingly an impairment provision of £1,146,689 was made against this investment. On 27 February 2007 Custom Business Systems Limited was dissolved and the related cost and impairment of this investment has now been eliminated.

The company has the following subsidiary undertakings:

Name	Principal activity	Holding	Registered
Dillistone Systems Limited	Sale of computer software and related support services	100%	England & Wales
Dillistone Systems (Australia) Pty Limited	Sale of computer software and related support services	100%	Australia
Dillistone Systems (US) Inc	Sale of computer software and related support services	100%	USA
Dillistone Solutions Limited	Non trading	100%	England & Wales

12. Inventories

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Licences for resale	2,334	21,210	-	-

13. Trade and other receivables

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Trade and other receivables	1,174,952	722,286	-	-
Group receivables	-	-	232,680	97,437
Other current assets	14,965	19,592	-	43,588
Prepayments and accrued income	94,273	85,755	59,585	-
	1,284,190	827,633	292,265	141,025

14. Trade and other payables

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Trade and other payables	226,015	147,689	2,243	16,438
Group payables	-	-	1,391,699	1,357,094
Deferred income	1,481,533	980,167	-	-
Accruals	140,490	77,363	49,577	28,483
	1,848,038	1,205,219	1,443,519	1,402,015

15. Share capital

	2007 £	2006 £
Authorised		
10,000,000 Ordinary shares of 5 pence each	500,000	500,000
Allotted, called up and fully paid		
5,400,000 Ordinary shares of 5 pence each	270,000	270,000

16. Operating lease arrangements

At 31 December 2007 the Group had future total commitments under non-cancellable operating leases as follows:

	2007 £	2006 £
Commitments payable:		
Within one year	49,077	49,077
Between two and five years	114,057	114,057

17. Share options

As at 31 December 2007, 44 employees (including directors) held options (granted on 3 May 2006 and 14 September 2007) over a total of 347,934 (2006: 323,886) ordinary shares at an average exercise price of 40.41p (2006: 16.15p), as follows:

Date of grant	Number of shares under option at 31 December 2006	Granted during the year	Forfeited during the year	Number of shares under option at 31 December 2007	Exercise price	Expiry date
3 May 2006	323,886	-	(5,952)	317,934	16.15p	3 May 2009
14 September 2007	-	30,000	-	30,000	297.5p	14 September 2010
	323,886	30,000	(5,952)	347,934		

17. Share options (continued)

No share options were exercised during the period. The company's share price on 31 December 2007 was 121.5p.

The weighted average time to expiry of the share options outstanding at 31 December 2007 was 1.46 years (2006: 2.34 years). Details of individual expiry dates are shown above.

The fair value of all options granted is shown as an employee expense with a corresponding increase in equity. The employee expense is recognised equally over the time from grant until vesting of the option. The employee expense for the year was £13,462. The fair value has been measured using the Black Scholes model. The expected volatility is based on the historic volatility adjusted for any expected changes in future volatility. The material inputs to the model have been:

	Granted in year ended	
	31 December 2006	**31 December 2007**
Average share price at grant	£0.16	£2.97
Average exercise price	£0.16	£2.97
Expected volatility	10%	10%
Expected life	3 years	3 years
Expected dividend yield	nil	nil
Risk-free rate of return	5%	5%

18. Employees

The average number of employees was:

	2007	**2006**
Operations	37	32
Management	4	4
Employee numbers	41	36

Their aggregate remuneration comprised:

	2007	**2006**
	£	**£**
Wages and salaries	1,506,624	1,078,821
Social security costs	190,527	137,222
Pension costs	31,966	17,885
	1,729,117	1,233,928

The directors' remuneration is disclosed in the Corporate Governance Report on page 12 of the financial statements.

19. Control

The ultimate controlling parties, by way of their significant holding of shares in Dillistone Group PLC, were:

	Ordinary Shares
J McLaughlin	996,888
J S Starr	1,162,461
R Howard	1,162,461

20. Related party transactions

Company

The company has a related party relationship with its subsidiaries, its directors, and other employees of the company with management responsibility.

During the year the company received a management charge of £135,243 (2006: £121,303) from its subsidiary company Dillistone Systems (US) Inc. At the year end Dillistone Systems (US) Inc owed the company £231,546 (2006: £97,437).

During the current year no management charge was received from its subsidiary Dillistone Systems Limited (2006: £260,000). The company was recharged salary expenses by Dillistone Systems Limited of £418,193 (2006: £346,290). At the year end Dillistone Systems Limited was owed £1,341,706 (2006 £1,307,101).

Management charges payable by Group members to Dillistone Group PLC relate to sales and technical support provided directly to them, together with third party software licenses on products sold, and a contribution towards central operating and product development costs.

At the year end Dillistone Systems (Australia) Pty Limited was owed £49,993 (2006: £49,993).

During the previous year the company paid for preliminary set up expenses for its subsidiary Dillistone Solutions Limited totalling £1,134. At 31 December 2007 the company was owed £1,134 (2006: £1,134).

During the previous year the Group structure was changed as detailed in note 11. The restructure was effected by Custom Business Systems Limited (a subsidiary of the company) paying a dividend in specie to the company of £1,623,164, being the market value of the Dillistone Systems Limited, Dillistone Systems (US) Inc and Dillistone Systems (Australia) Pty Limited. Custom Business Systems Limited was dissolved on 27 February 2007, which led to a write off of an inter-company debt totalling £15,341.