Dillistone Group Plc

Annual Report

For the year ended 31 December 2008

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DILLISTONE GROUP PLC

HIGHLIGHTS

"The value of our support renewals for December 2008, which reflect in sales for 2009, shows a pleasing trend, and there are a number of significant prospective new clients on the horizon.

The Group will see the impact of the recession in its 2009 results, but is well positioned to withstand the effects of this because of its strong balance sheet and cash reserves. The board has decided that, in the absence of major unforeseen circumstances, it will maintain the dividend of 10.5p per share paid in respect of 2008 through into 2009, as a sign of its confidence in the businesses' ability to weather the downturn."

J McLaughlin – Executive Chairman

Revenue up 13% to £4.6m (2007: £4.1m)

Operating profit up 17% to £1.4m (2007: £1.2m)

Profit before tax expense up 19% to £1.4m (2007: £1.2m)

Basic earnings per share up 24% to 18.48p (2007: 14.9p)

Net cash generated from operating activities up 15% to £1.4m (2007: £1.2m)

Cash balances up 53% to £2.4m (2007: £1.5m)

Recurring revenues increased by 35% to £2.25m, representing 49% of total turnover

Proposed final dividend of 7p per share recommended, making total dividend for year of 10.5p

Clients in over 55 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
Nomad	Blomfield Corporate Finance Limited 1-3 College Hill London, EC4R 2RA
Brokers	Religare Hichens, Harrison plc Bell Court House 11 Blomfield Street London, EC2M 1LB
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 for the Group for the year ended 31 December 2008.

Financial Performance

We began the year with a very high level of confirmed orders, and this contributed to an excellent start to the year, and the year as a whole produced record profits and revenues for the Group.

Revenue in the year increased by 13% to £4,608,197 *(2007 - £4,066,463)*, and profits before tax increased by 19% to £1,425,572 *(2007 - £1,196,213).* These results were assisted somewhat by the weakness of the pound in the second half of the year, in particular against the US Dollar and Euro. Sales in the overseas markets held up extremely well, with increases of 19% in Europe, 26% in Asia-pacific, and 31% in the USA when measured in Sterling. When measured in local currency these increases moderated somewhat to 5%, 21% and 28% respectively, but nevertheless were creditable performances given the effects of the global economic slowdown.

I said last year that our decision to offer our product on a "Software as a Service" (SaaS) basis in the USA would have a positive impact on the revenues in that market, and I am pleased to report that this initiative appears to have been successful. Recurring revenues in the USA increased by 47% in dollar terms, and now comprises 65% of all sales in that region. Notwithstanding the localised effects of the recession in the USA, our business there performed very well, posting an impressive 75% increase in pre-tax profits, albeit with some assistance from the currency strengthening in the latter part of the year.

Recurring revenues (mainly arising from support agreements) for the Group as a whole increased by some 35% from £1.666m to £2.246m, whilst non recurring revenues fell slightly as more new clients opted for the SaaS model. Recurring revenues now comprise some 49% of sales *(2007 – 41%)* and the level of renewals for 2009 are at an encouraging level.

Operating margins increased further during the year from 29% in 2007 to 30% for 2008, and the pre-tax margin increased from 29% to 31%, reflecting a higher level of interest income, and controls over operating costs.

Our cashflow has continued to reflect the profitable performance of the business, and we generated an inflow of £1.226m before dividends and currency gains *(2007 - £1.106m).* At the year end we held cash balances of £2.353m *(2007 - £1.534m).* This balance is struck after the payment of dividends during the year of £513,000 *(2007 - £135,000).* The group continues to have no borrowings whatsoever and our balance sheet remains very strong.

Earnings per share increased by 24% to 18.48p per share *(2007 – 14.90p).* We paid an interim dividend of 3.5p in October 2008, and the board has recommended a final dividend of 7p per share *(2007 - 6p)*, subject to shareholder approval, payable on 9th June 2009 to holders on the register on 8th May 2009. Shares will trade Ex-Dividend from 6th May 2009. The total dividend for the year, which amounts to 10.5p per share is an increase of 2p per share or 24% over 2007. The dividend is covered 1.76 times by earnings, and 2.16 times by the cash generation of the business.

Staff

Our staff again performed exceptionally well during the year, and share options that were granted in May 2006 will begin to crystallise in May 2009. At the year end, staff held options over 301,325 shares, representing 5.3% of the enlarged share capital. Some 277,000 of these options will mature in May 2009, and I look forward to welcoming the holders of these options to the share register in due course.

Prospects

During the latter part of 2008 our order intake reduced as a result of the global economic slowdown, and many of the major economies in which we trade are now in recession. A number of our clients are experiencing difficulties, with a few ceasing to trade altogether. However, the value of our support renewals for December 2008, which reflect in sales for 2009, shows a pleasing trend, and there are a number of significant prospective new clients on the horizon. Despite the slowdown, the board has committed to significant resources to further development of FILEFINDER to ensure that we retain our competitive position in the face of evolving technologies common to our market place; this will ensure that FILEFINDER is built on technologies that will serve our clients well into the next decade.

It is inevitable that the Group will see the impact of the recession in its 2009 results, but is well positioned to withstand the effects of this because of its strong balance sheet and cash reserves. The board has decided that, in the absence of major unforeseen circumstances, it will maintain the dividend of 10.5p per share paid in respect of 2008 through into 2009, as a sign of its confidence in the businesses' ability to weather the downturn. It will keep this position under constant review.

Jim McLaughlin
14th April 2009

Managing Director's Report

2008 proved to be another excellent year for the Group and I am delighted to report record levels of revenue, profits, cash generation, dividends and earnings per share. This was achieved against a somewhat gloomy economic backdrop and it should be noted that we did see a significant weakening in demand for our products and services in the final quarter of the year.

The year as a whole saw us win 142 new business contracts which were implemented in 31 countries. Our global spread is particularly pleasing – we now have clients in 56 countries. Whilst the credit crunch continues to impact on the global economy and we have certainly been hit by that, this international exposure does give us some protection against the most extreme volatility. In particular it is worth noting, given the particular concerns around the state of the UK economy, that in 2008 we generated more revenue from outside the UK (51%, up from 46% in 2007) than from within.

Our efforts to increase the use of our FILEFINDER software system by the in-house talent acquisition teams of major corporations has continued to bear fruits, and we now boast 6 of the Fortune 100 companies as clients. We are confident of extending our penetration of this space in 2009.

DIVISIONAL REVIEW

UK, Middle East and India

In previous reports, I have noted that the bulk of the Group cost base is carried by our UK business and this remains the case. The UK reported an increase in revenue of 3.5% (2008 - £2,256,516; 2007 - £2,180,172), however our increase in costs carried by the region meant that profitability in the region was almost unchanged in terms of its result, with a contribution from the region of £523,661 (2007 - £536,428).

Europe

Our European business broke the £1 million revenue mark for the first time with revenues increasing by 19% (2008 - £1,008,035; 2007 - £845,745). Profits rose by 11% (2008 - £729,318; 2007 - £656,827). This represents our best ever results within the region.

Asia Pacific

Our Asia Pacific region once again returned a pleasing set of results, with Revenue up 26% (2008 - £511,120; 2007 - £406,949) and this lead to an increase in profit of 19% (2008 - £307,447; 2007 - £258,064). Again, this is the best performance from the region yet.

United States

The United States benefited particularly from the decision to offer our FILEFINDER Software system on the SaaS model and the increase in recurring revenues, along with the fall in the value of Sterling, played a major part in our excellent results in the region. Revenue of £832,527 equates to an increase of 31% *(2007 - £633,597)* and this lead to an increase in profit of 75% to £324,377 *(2007 - £185,339).*

PRODUCT STRATEGY

We continue to invest in our core FILEFINDER product, and in early 2009 we released the latest iteration of the product, FILEFINDER 9. This product features our new "Research Zone" technology which allows users to utilise automated searches to mine the Internet for information on potential candidates and is functionality which, we believe, is groundbreaking.

Despite releasing what we believe to be the leading product in our space, we consider that it is vital that the business continues to invest in its future. Our strong balance sheet means that, whilst many of our competitors are likely to be cutting back on product development, we have actually committed to a significant increase in our R+D budget for 2009 and 2010. We believe that this will place us in the optimum position when the global economy does recover.

During 2007 and 2008 we ran a series of conferences, webinars and training events targeting the Executive Search industry. Although these events made a positive contribution to profitability in the year, it was noticeable that events in the last quarter of 2008 were less well attended, and as a result, we have reduced the number of such events we will be promoting during 2009.

PEOPLE

Once again, I would like to record my appreciation for the efforts of the excellent group of people who we have working for us around the world. We are fully aware that our results are dependent on the efforts of our people and we believe that our continued investment in our staff will help us to take advantage in the economic upturn, when it comes.

Jason Starr
14th April 2009

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008

The directors present their report and financial statements for the year ended 31 December 2008.

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 15.

An interim dividend of 3.5p per share (based on 5,400,000 shares in issue at the time) was paid in October 2008. A final dividend of 7p per share was approved by the board on 15 April 2009 and will be paid on 9 June 2009, subject to approval by the shareholders.

Directors

The following directors have held office since 1 January 2008:
J McLaughlin - Chairman
J S Starr - retires by rotation
R Howard
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 12.
J S Starr, who is proposed for re-election at the forthcoming AGM, has a service contract 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	1,172,461	22%
J McLaughlin	1,000,000	19%
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:

	2008	2007
	£	£
Charitable donations	75	725

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 2008 was 28 (31 December 2007: 32).

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

14th April 2009
Secretary

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	2008 Total	2007 Total
	£	£	£	£	£
Executive directors					
J McLaughlin	39,500	18,752	-	58,252	52,440
J S Starr	105,000	37,504	900	143,404	130,780
R Howard	95,500	34,095	720	130,315	118,610
A D James	72,000	30,685	900	103,585	90,365
Non-executive director					
M D Love	7,500	-	-	7,500	9,000
	319,500	121,036	2,520	443,056	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 2007 & 31 December 2008	Exercise price	Date
A D 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 at the year end are set out below

	Ordinary shares of 5 pence each	
	At 31 December 2008	**At 31 December 2007**
J McLaughlin	1,000,000	993,433
J S Starr	1,162,461	1,159,006
R Howard	1,162,461	1,159,006
A D James	3,355	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 2008 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, the Managing 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 2008 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 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985;
- the information given in the Directors' Report the Managing Directors' report and the Chairman's statement is consistent with the financial statements.

Saffery Champness

Chartered Accountants
Registered Auditors

Beaufort House
2 Beaufort Road
Clifton
Bristol
BS8 2AE

Date: 15 April 2009

DILLISTONE GROUP PLC

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 £	2007 £
Revenue	**3**	4,608,197	4,066,463
Cost of sales		(202,997)	(236,951)
Gross profit		4,405,200	3,829,512
Administrative expenses		(3,033,799)	(2,659,390)
Results from operating activities	**4**	1,371,401	1,170,122
Financial income	**5**	54,171	26,091
Profit before tax		1,425,572	1,196,213
Tax expense	**6**	(427,672)	(391,838)
Profit for the year		997,900	804,375

Earnings per share – from continuing activities

Basic	**7**	18.48p	14.90p
Diluted	**7**	17.50p	14.05p

DILLISTONE GROUP PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

	Share capital £	Retained earnings £	Share option £	Foreign exchange £	Total £
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
Profit for the year ended 31 December 2008	-	997,900	-	-	997,900
Fair value of equity settled share option expense	-	-	13,649	-	13,649
Exchange differences on translation of overseas operations	-	-	-	106,013	106,013
Dividends paid	-	(513,000)	-	-	(513,000)
Balance at 31 December 2008	270,000	1,633,923	40,427	123,749	2,068,099

DILLISTONE GROUP PLC

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

	Share capital £	Retained earnings £	Share option £	Total £
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
Profit for the year ended 31 December 2008	-	628,469	-	628,469
Fair value of equity settled share option expense	-	-	13,649	13,649
Dividends paid	-	(513,000)	-	(513,000)
Balance at 31 December 2008	270,000	295,066	40,427	605,493

DILLISTONE GROUP PLC

CONSOLIDATED AND COMPANY BALANCE SHEETS
AS AT 31 DECEMBER 2008

		Group		Company	
	Notes	**2008**	**2007**	**2008**	**2007**
ASSETS		**£**	**£**	**£**	**£**
Non-current assets					
Intangible assets	**9**	707,396	639,835	-	-
Property plant and equipment	**10**	158,443	155,390	-	-
Investments	**11**	-	-	1,623,264	1,623,264
		865,839	795,225	1,623,264	1,623,264
Current assets					
Inventories	**12**	50,628	2,334	-	-
Trade and other receivables	**13**	1,306,748	1,284,190	-	292,265
Cash and cash equivalents		2,352,794	1,533,649	336,563	4,365
		3,710,170	2,820,173	336,563	296,630
Total assets		4,576,009	3,615,398	1,959,827	1,919,894
EQUITY AND LIABILITIES					
Equity					
Share capital	**15**	270,000	270,000	270,000	270,000
Retained earnings		1,633,923	1,149,023	295,066	179,597
Share option reserve	**17**	40,427	26,778	40,427	26,778
Translation reserve		123,749	17,736	-	-
Total equity		2,068,099	1,463,537	605,493	476,375
Liabilities					
Non current liabilities					
Deferred tax liability	**6**	3,000	3,000	-	-
Current liabilities					
Trade and other payables	**14**	2,328,489	1,848,038	1,304,943	1,443,519
Current tax payable		176,421	300,823	49,391	-
Total liabilities		2,507,910	2,151,861	1,354,334	1,443,519
Total liabilities and equity		4,576,009	3,615,398	1,959,827	1,919,894

The financial statements were approved by the board of directors and authorised for issue on 14th April 2009. 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 2008

	2008	2008	2007	2007
Operating activities	£	£	£	£
Profit from operations	1,371,401		1,170,122	
Less taxation paid	(552,074)		(319,590)	
Adjustment for				
Depreciation and amortisation	132,712		126,606	
Share option expense	13,649		13,462	
Loss on disposal	-		657	
Operating cash flows before movement in working capital	965,688		991,257	
(Increase) in receivables	(22,558)		(456,557)	
(Increase)/decrease in inventories	(48,294)		18,876	
Increase in payables	480,451		637,216	
Net cash generated from operating activities		1,375,287		1,190,792
Investing activities				
Interest received	54,171		26,091	
Purchases of property plant and equipment	(71,747)		(35,653)	
Investment in development costs	(131,579)		(75,088)	
Net cash used in investing activities		(149,155)		(84,650)
Financing activities				
Dividends paid	(513,000)		(135,000)	
Net cash used by financing activities		(513,000)		(135,000)
Net increase in cash and cash equivalents		713,132		971,142
Cash and cash equivalents at beginning of year		1,533,649		538,591
Effect of foreign exchange rate changes		106,013		23,916
Cash and cash equivalents at end of year		2,352,794		1,533,649

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

COMPANY CASH FLOW STATEMENT
AS AT 31 DECEMBER 2008

Operating activities	**2008** **£**	**2008** **£**	**2007** **£**	**2007** **£**
Profit from operations	628,469		226,168	
Less taxation paid	-		-	
Adjustment for				
Share option expense	13,649		13,462	
Operating cash flows before movements in working capital	642,118		239,630	
Decrease/increase in receivables	292,265		(151,240)	
(Decrease)/increase in payables	(89,185)		41,504	
Net cash generated from operating activities		845,198		129,894
Financing activities				
Dividends paid	(513,000)		(135,000)	
Net cash used in financing activities		(513,000)		(135,000)
Net increase/(decrease) in cash and cash equivalents		332,198		(5,106)
Cash and cash equivalents at beginning of year		4,365		9,471
Cash and cash equivalents at end of year		336,563		4,365

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 2009.

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, commencing a year following the costs being incurred.

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 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 being licences for re-sale are 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.

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 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 on 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.

(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. As a result of a review of the Group's banking arrangements in 2007, 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. This decision was proved justified during 2008 when the bank in question had to be supported by the US Government.

2. Financial risk management (continued)

2.2 Quantitative risk analysis

Foreign currency
At the year end, the Group had assets totalling £329,468 and liabilities totalling £566,874 denominated in Euros (2007: assets totalling £830,727 and liabilities totalling £279,935), assets totalling £583,553 and liabilities totalling £623,139 denominated in US Dollars (2007: assets totalling £526,291 and liabilities totalling £297,678) and assets totalling £214,838 and liabilities totalling £63,876 denominated in Australian Dollars (2007: assets totalling £456,474 and liabilities totalling £7,279). 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 £5,296 (2007: decrease of £4,494).

Interest rate risk
At the year end, the Group had positive cash balances totalling £2,352,794 (2007 - £1,533,649). 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 £4,098 (2007: decrease of £3,662).

Credit risk

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

	2008	**2007**
	£	**£**
Current	1,077,263	1,100,977
1 - 60 days overdue	52,993	56,576
More than 60 days overdue	35,129	17,399
Total	1,165,385	1,174,952

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 2008

	UK	Europe	USA	Asia-Pacific	Total
	£	£	£	£	£
Segment revenue	2,256,516	1,008,035	832,527	511,120	4,608,198
Depreciation and amortisation expense	131,395	-	-	1,317	132,712
Segment result	523,611	729,318	324,377	307,447	1,884,753
Central costs					(513,352)
Operating profit					1,371,401
Additions of non-current assets	203,326	-	-	-	203,326
Segment assets	2,953,757	329,468	583,553	214,838	4,081,616
Central assets - goodwill					494,393
Total assets					4,576,009
Segment liabilities	1,254,021	566,874	623,139	63,876	2,507,910

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

3. Segment reporting (continued)

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

Revenue

	2008	2007
	£	£
Recurring income	2,245,943	1,665,870
Non-recurring income	2,362,254	2,400,593
	4,608,197	4,066,463

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

	2008	2007
	£	£
Result from operating activities is stated after charging:		
Depreciation	68,694	61,082
Amortisation	64,018	65,524
Gain on foreign exchange transactions	(11,711)	-
Operating lease rentals - land and buildings	97,620	91,365
Money purchase pension contributions	32,285	31,966
Fees receivable by the group auditors:		
Audit of financial statements	19,860	15,300
Other services:		
Audit of accounts of subsidiary of the company	12,140	12,150
Other services relating to taxation	5,720	4,000
All other services	6,800	3,550

5. Financial income

	2008	2007
	£	£
Interest receivable	54,171	26,091

6. Tax expense

	2008	2007
	£	£
Current tax	427,672	379,533
Adjustment to previous period	-	17,908
Deferred tax	-	(5,603)
Income tax expense for the year	427,672	391,838
Factors affecting the tax charge for the year		
Profit before tax	1,425,572	1,196,213
Effective rate of taxation	30.00%	30.37%
Profit before tax multiplied by the effective rate of tax	427,672	363,290
Effects of :		
Change in tax rate	(25,301)	-
Non deductible expenses	(40,067)	(3,470)
Adjustments for overseas tax paid	57,829	(904)
Depreciation and amortisation disallowed	26,538	29,881
Capital allowances	(18,999)	(9,264)
Adjustments to previous periods	-	17,908
Deferred tax liability	-	(5,603)
Tax expense	427,672	391,838

Deferred tax provided in the financial statements is as follows:

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Accelerated capital allowances	3,000	3,000	-	-

7. Earnings per share

	2008	**2007**
Profit attributable to ordinary shareholders	£997,900	£804,375
Weighted average number of shares	5,400,000	5,400,000
Basic earnings per share	18.48 pence	14.90 pence
Weighted average number of shares after dilution	5,702,087	5,726,811
Fully diluted earnings per share	17.50 pence	14.05 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 £628,469 (2007 - £226,168).

9. Intangible assets

Group	Development costs	Goodwill	Total
	£	£	£
Cost			
At 1 January 2007	303,307	494,393	797,700
Additions	75,088	-	75,088
At 31 December 2007	378,395	494,393	872,788
Additions	131,579	-	131,579
At 31 December 2008	509,974	494,393	1,004,367
Amortisation			
At 1 January 2007	167,429	-	167,429
Charge for the year	65,524	-	65,524
At 31 December 2007	232,953	-	232,953
Charge for the year	64,018	-	64,018
At 31 December 2008	296,971	-	296,971
Carrying amount			
At 31 December 2008	213,003	494,393	707,396
At 31 December 2007	145,442	494,393	639,835
At 31 December 2006	135,878	494,393	630,271

10. Property, plant and equipment

Group	Land and buildings	Office & computer equipment	Fixtures and fittings	Total
	£	£	£	£
Cost				
At 1 January 2007	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
Additions	-	71,747	-	71,747
At 31 December 2008	163,073	249,758	25,274	438,105
Depreciation				
At 1 January 2007	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
Charge for the year	32,692	33,922	2,080	68,694
At 31 December 2008	77,511	178,669	23,482	279,662
Carrying Amount				
At 31 December 2008	85,562	71,089	1,792	158,443
At 31 December 2007	118,254	33,264	3,872	155,390
At 31 December 2006	150,583	30,893	-	181,476

11. Non-current asset investments

Company

	Unlisted investments £
Cost	
At 1 January 2007	2,769,953
Eliminated	(1,146,689)
At 31 December 2007 and 2008	1,623,264
Provision for impairment	
At 1 January 2007	1,146,689
Eliminated	(1,146,689)
At 31 December 2007 and 2008	-
Carrying amount	
At 31 December 2008	1,623,264
At 31 December 2007	1,623,264
At 31 December 2006	1,623,264

On 27 December 2007 an intermediate parent company Custom Business Systems Ltd, was dissolved and the related cost and impairment of this investment was eliminated.

The company has the following subsidiary undertakings:

Name	Principal activity	Holding of ordinary shares	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	
	2008	2007	2008	2007
	£	£	£	£
Licences for resale	50,628	2,334	-	-

13. Trade and other receivables

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Trade and other receivables	1,165,385	1,174,952	-	-
Group receivables	-	-	-	232,680
Other current assets	-	14,965	-	-
Prepayments and accrued income	141,363	94,273	-	59,585
	1,306,748	1,284,190	-	292,265

14. Trade and other payables

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Trade and other payables	467,146	226,015	12,652	2,243
Group payables	-	-	1,266,417	1,391,699
Deferred income	1,614,836	1,481,533	-	-
Accruals	246,507	140,490	25,874	49,577
	2,328,489	1,848,038	1,304,943	1,443,519

15. Share capital

	2008 £	2007 £
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 2008 the Group had future total commitments under non-cancellable operating leases as follows:

	2008 £	2007 £
Commitments payable:		
Within one year	67,504	49,077
Between two and five years	23,106	114,057

17. Share options

As at 31 December 2008, 32 employees (including directors) held options (granted on 3 May 2006 and 14 September 2007) over a total of 301,325 (2007 - 347,934) ordinary shares at an average exercise price of 36.86p (2007 - 40.41p), as follows:

Date of grant	Number of shares under option at 31 December 2007	Granted during the year	Forfeited during the year	Number of shares under option at 31 December 2008	Exercise price	Earliest exercise date
3 May 2006	317,934	-	(40,609)	277,325	16.15p	3 May 2009
14 September 2007	30,000	-	(6,000)	24,000	297.5p	14 September 2010
	347,934	-	(46,609)	301,325		

17. Share options (continued)

No share options were exercised during the period. The company's share price on 31 December 2008 was 155p.

The weighted average time to expiry of the share options outstanding at 31 December 2008 was 0.45 years (2007 - 1.46 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 £13,649. 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	£2.97	£2.97
Average exercise price	£2.97	£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:

	2008	**2007**
Operations	41	37
Management	4	4
Employee numbers	45	41

Their aggregate remuneration comprised:

	2008	**2007**
	£	**£**
Wages and salaries	1,668,543	1,506,624
Social security costs	209,452	190,527
Pension costs	32,960	31,966
	1,910,955	1,729,117

The directors' remuneration is disclosed on page 11 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	1,000,000
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 £291,250 (2007 - £135,243) from its subsidiary company Dillistone Systems (US) Inc. At the year end Dillistone Systems (US) Inc owed the company £nil (2007 - £231,546).

During the current year Dillistone Systems Limited paid a dividend of £513,000 to Dillistone Group Plc. The company was recharged salary expenses by Dillistone Systems Limited of £491,399 (2007 - £418,193), and was paid a management charge of £500,000 (2007 - £nil). At the year end Dillistone Systems Limited was owed £1,208,815 (2007 - £1,341,706).

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 £58,736 (2007 - £49,993).

During the previous year the company paid for preliminary set up expenses for its subsidiary Dillistone Solutions Limited totalling £1,134. There were no transactions between the companies in the current year. At 31 December 2008 the company was owed £1,134 (2007 - £1,134).

The directors received dividends paid by the company of £332,625 (2007: £82,816).