Company Registration No. 4578125 (England and Wales)

Dillistone
Group Plc

DILLISTONE GROUP PLC

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2009

DILLISTONE GROUP PLC

CONTENTS

HIGHLIGHTS

Dillistone Group Plc ('the Company'), the AIM quoted supplier of recruitment software, is pleased to announce its preliminary results for the year ended 31 December 2009.

Highlights for the year:

- Market expectations met
- Second half results ahead of both H1 2009 and H2 2008
- Recurring revenues up 4.4% to £2.34m, representing 64% of total turnover
- Further interim dividend of 7p per share declared, making total dividend for year of 10.5p
- Clients in 57 countries world wide
- Strong order intake in first quarter of 2010
- In the absence of major unforeseen circumstances, the board will maintain the dividend of 10.5p per share paid in respect of 2009 through into 2010

Commenting on the results, Jason Starr, Managing Director said:

“Whilst the recruitment software industry has been badly impacted by the economic climate, we are delighted to have been able to achieve market expectations and maintain our dividend policy whilst also increasing our research and development budget. This success reflects the substantial efforts made across the year by the whole team and the robust cost controls implemented by management. In addition, we are delighted to report that in the first three months of 2010, we have enjoyed a significant increase in our order intake and remain confident that our strong balance sheet, global client base and market leading suite of products puts us in a strong position for the future.”

DIRECTORS AND ADVISERS

Directors	J S Starr – Managing Director R Howard – Operations Director A D James – Projects Director M D Love – Non-Executive Chairman
Secretary	R Howard
Company number	4578125
Registered office	3rd Floor 50-52 Paul Street London, EC2A 4LB
Independent 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	Religare Capital Markets (UK) Limited – trading as Religare Capital Markets 100 Cannon Street London, EC4R 2EU
Brokers	Religare Capital Markets plc 100 Cannon Street London, EC4R 2EU
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent, BR3 4TU

The directors present their report and financial statements for the year ended 31 December 2009.

Principal activities

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.

Financial Performance

The Chairman's statement at the end of last year anticipated that the Group would see the effects of the recession in its financial results for 2009, and that has been the case.

Total revenue for the year fell by 21% to £3,654,883 *(2008 - £4,608,198)* and profits before tax fell by 24% to £1,080,668 *(2008 - £1,425,572).* These figures do not however reveal the real progress that the Group has made in combating the effects of the recession. The operating profits shown in the accounts for the second half of 2009 were better than those achieved in both the second half of 2008, and the first half of 2009. The second half of 2008 generated operating profits of £439,770, and the first half of 2009 £465,655, whilst the second half of 2009 generated an operating profit of £608,388.

Whilst total revenue in the year fell by 21%, this was attributable to non-recurring sales, which fell by some 45% when compared with 2008. Sales to new clients held up well, whereas sales of new licences and upgrades to established clients showed a steep decline. Total non-recurring sales amounted to £1,310,761, *(2008 - £2,362,255)***,** with marked differences between our markets. Both the UK, Middle East and Africa (UKMEA) and Asia-Pacific markets showed severe reductions of 57% and 64% respectively, whilst the European and US markets showed less severe reductions of 20% and 21% respectively.

Recurring sales in the year increased by 4% over 2008 levels to £2,344,122 *(2008 - £2,245,943),* and in 2009 they comprised 64% of total sales, compared with 49% in 2008, and 41% in 2007. Our decision to offer our product on a "Software as a Service" (SaaS) basis in the USA in 2006 continues to reap rewards, and in 2009 recurring revenues in the USA comprised 72% of sales in that market, compared with 65% in 2008.

We have been successful in controlling costs in 2009, and administrative costs reduced by 19% to £2,467,689 (*2008 - £3,033,799*) as a result of awarding no staff bonuses, reductions in our general marketing and administrative expenditure and staff reductions through natural wastage.

Understandably, given the marked differences in regional sales, the results for each of the regional businesses differ widely. The UKMEA and Asian businesses both recorded significant reductions in operating profits, with UKMEA falling by 66% and Asia 51%, whilst our European business recorded a 4% improvement, and the USA a 10% improvement.

Cash and cash equivalents for the year showed an inflow of £614,894 for the year before development costs, dividends and currency movements *(2008 - £1,357,711)*. We paid an interim dividend of 3.5p per share in October 2009, and on 1 April 2010 we will be paying an additional 7p per share, retaining the dividend at the same level as 2008. This dividend is covered 1.43 times by the earnings of the business.

Trading Review

2009 proved to be an exceptionally tough year for the recruitment software industry, and we have not been immune to these difficulties. Our target market has shrunk, and the average size of the companies that make up that market has also fallen.

Against this backdrop, we are pleased once again to report financial results in-line with market expectations. In spite of a tough trading environment we continue to benefit from a strong cash balance. Our increased investment in research and development together with the retention of our highly trained staff means we are well positioned to take advantage of any recovery.

The latest version of our FILEFINDER application – FILEFINDER 9 – was released in April 2009. This product has been very well received, and since then has been implemented or ordered by over 250 organisations, including both new clients and firms upgrading from earlier versions of our software. Despite this, we refuse to rest on our laurels as we believe that investing in the future of our business is vital. As such we have, despite the recession, increased our investment in research and development substantially in the year under review.

The reduced tax charge for 2009 reflects this investment and the claim by the company for R&D tax credits.

Whilst overall revenues are down, it is worth noting that our recurring revenues have held up well throughout the recession. The main shortfall in our income relates to non-recurring income. In volume terms, new contract wins fell by 14% and our typical new contract was also smaller – both in terms of project size and value. This reflected the impact of the recession on the executive search industry itself. With very few exceptions, search firms both downsized and cutback on IT investments. Our average new client order value, however, actually increased by 15% as a result of some larger but atypical contracts. Given how few large executive search firms chose to invest in technology this year, we are delighted by these wins which, we feel, demonstrate our continued strength in the market.

The drop in non-recurring revenues is clearly disappointing (2009: £1,310,761 2008: £2,362,255). However, this is not fully reflective of our performance in the year. We noted in our Interim Results for H1 2008 that our performance had been helped by "orders taken towards the end of 2007 which were implemented during the early part of 2008". The pipeline carried into 2009, however, was much smaller than in 2008, reflecting the impact of the economic crisis. Pleasing contract wins in the later weeks of 2009, on the other hand, mean that we carry a stronger pipeline into 2010. In reality, the reduction in value of orders (new client sales) brought in by our business development team during 2009 as opposed to 2008 was actually less than 4%, reflecting – we believe – our continued strength in the market.

Sales to our existing client base fell by 47%. This is not unexpected. As search firms downsize, they have less need to purchase additional licences and services from us. However, this is cyclical and as such we would expect to see an improvement in this figure as the world economy recovers.

We continue to see the benefit of having a global client base. During 2009, we sold systems into 34 different countries, and this brings the total number of countries in which we have installations up to 57. Revenues from outside our home market reached 58% (2008: 51%) of our total revenues for the year. We believe that our international client base will play a key role in our return to a path of growth.

Revenue in the UKMEA dropped by 32% from £2,256,516 to £1,527,669. The UKMEA is our longest established region and the one in which we have the largest proportion of our clients and, as such, it is the division which felt the falling away of sales to existing clients hardest. Largely as a result of this revenue fall, our profit in the territory fell to £178,469 (2008: £523,611). It should be noted that the UKMEA carried the majority of the cost overhead for the Group worldwide. A notable contract win in the UKMEA was with Tribal Executive Search & Selection, a division of the resourcing solutions subsidiary of Tribal Group Plc.

The impact of the recession on our European business was less extreme, with profits of £761,050 on revenue of £962,902. This represents a small improvement on our 2008 figures when we reported profits of £729,318 on revenue of £1,008,035.

Our Asia Pacific business is traditionally our smallest and has the lowest level of recurring revenue. As a result of this it is more reliant, for its profit, on generating new sales to cover a relatively fixed cost base. The difficult market conditions therefore had a relatively larger impact on this territory with revenue down from £511,120 to £354,040 and profits down to £149,790 from £307,447 in 2008. As a result of this dip, we restructured the working arrangements of staff in this territory so as to provide additional remote resource to European based clients. Relative to other markets, our Asia Pacific region seems to have endured a shorter but deeper dip, and the early signs are that the market has now returned to its traditional growth curve.

The United States returned its best ever performance, increasing its profits by 10% to £358,020 (2008: £324,377) despite a small dip in revenue (2009: £810,272; 2008: £832,527). In December 2009 the Group also announced a significant sale to a major global executive search firm which is the largest sale we have yet made to a US based firm. This should have a positive impact on our results in 2010.

Staff and Board

This has been a difficult year for all members of staff, who performed extremely well in achieving implementations of new systems against tight schedules. We believe that we have an exceptional team of highly skilled individuals with specialist knowledge of our industry and are pleased to have been able to reduce costs without needing to result to redundancies, which would not be in the best long term interests of the Group. This has ensured that we are in a strong position to take advantage of new opportunities as they arise. We would like to place on record our appreciation for the efforts of our staff, worldwide, during this difficult year.

During the year our staff exercised options over 265,441 new ordinary shares resulting from the share options that were granted in May 2006. Many of these remain on the share register, and we extend a warm welcome to them as shareholders.

With regret, post year end Jim McLaughlin resigned as Executive Chairman and Finance Director. His contribution over the past years is much appreciated and we wish him well for the future. Steps are in place to recruit a new Finance Director and Mike Love, previously Non-Executive Director, has stepped into the role of Chairman.

Outlook

We operate in uncertain markets and as such we continue to take a continued strong focus on cost control.

However, there are positive signs of recovery. Our operating profits in the second half of 2009 were better than we achieved in the first half of the year and these, in turn, were better than we achieved in the second half of 2008.This leads to us enjoying our highest ever level of recurring revenues. We expect to build on this with an improvement in orders, and early signs are that sales to both new and existing clients are improving. Indeed, our order book in the first quarter of 2010 shows a significant increase on the value of orders received in the same period in 2009.

In the longer term, the Board continues to follow a strategy of growth. The Group makes the bulk of its revenues from the executive recruitment market, and this is one which benefits from beneficial demographic trends. As the "baby boomers" retire, demand is created for the services of executive search firms, and in turn the Board believes that this creates demand for our products and services.

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 2009 through into 2010, as a sign of its confidence in the momentum evident in the business.

Results and dividends

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

An interim dividend of 3.5p per share (based on 5,665,441 shares in issue at the time) was paid in October 2009. A second interim dividend of 7p per share was approved by the board on 31 March 2010 and will be paid on 1 April 2010.

Directors

The following directors have held office since 1 January 2009:
J McLaughlin – Chairman – (resigned 17 February 2010)
J S Starr
R Howard
A D James - retires by rotation
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 page13.

A D James, 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
J S Starr	1,184,811	20.91%
R Howard	1,174,811	20.74%
J McLaughlin	1,012,350	17.87%
G Fearnley	331,145	5.84%
R Howells	331,145	5.84%
M Bryan	325,145	5.74%
M Hill	325,145	5.74%
CFS Independent	244,000	4.31%

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 2009 was 30 (31 December 2008: 28).

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 2006.

The directors are responsible for preparing the Annual Report and the financial statements in accordance with the Companies Act 2006. The directors have chosen to 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.

On behalf of the board

J S Starr

31 March 2010
Managing Director

Corporate Governance

The Board supports the principles of good governance. In fulfilling their responsibilities, the Directors believe that they govern the Group in the best interests of the shareholders, whilst having due regard to the interests of other stakeholders in the Group including, in particular, customers, employees and suppliers.

The Workings of the Board and its Committees

The Board

In 2009 the Board comprised an Executive Chairman, one Independent Non-Executive Director and three Executive Directors. All Directors are obliged to submit themselves for re-election at least every three years. The Chairman and Non-Executive Director are considered to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. Mike Love is the current Senior Independent Director. To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information. They are also able to take independent professional advice as appropriate.

The structure and composition of the Board is under review and will be further reported on at the AGM.

The Board meets at least eight times each year and has adopted a formal schedule of matters specifically reserved for decision by it, thus ensuring that it exercises control over appropriate strategic, financial, operational and compliance issues. At these meetings the Board reviews trading performance, ensures adequate financing, sets and monitors strategy, examines investment and acquisition opportunities and discusses reports to shareholders. The following Committees have been established to deal with specific aspects of the Group's affairs.

Audit Committee

In 2009 the Audit Committee comprised the Chairman and Non-Executive Director and met three times during the year.

The Group Managing Director and external Auditors attend by invitation. It makes recommendations to the Board on issues surrounding the appointment, resignation or removal of Auditors and their remuneration. It discusses and agrees the scope of the audit with the external Auditors before the audit.

The Audit Committee reviews external audit activities, monitors compliance with statutory requirements for financial reporting and reviews the half-year and annual accounts before they are presented to the Board for approval. It is also required to review the effectiveness of the Group's internal control systems, to review the Group's statement on internal control systems prior to endorsement by the Board and to consider, from time to time, the need for a risk assessment of the Group's internal control systems.

The structure and composition of the Audit Committee is under review and will be further reported on at the AGM.

Remuneration Committee

In 2009 the Remuneration Committee comprised the Chairman, the Non-Executive Director and, by invitation, the Group Managing Director. It is responsible for recommending to the Board the contract terms, remuneration and other benefits for Executive Directors, including performance-related bonus scheme and participation in the Group's long term share option schemes.

The structure and composition of the Remuneration Committee is under review and will be further reported on at the AGM.

Internal Controls

The Board has overall responsibility for the Group's system of internal controls. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement. In order to discharge that responsibility in a manner which ensures compliance with laws and regulations and promotes effective and efficient operations, the Directors have established an organisation structure with clear operating procedures, lines of responsibility and delegated authority. There is an established framework of internal controls set out and approved by the Executive Management. The more important elements of this framework are as follows:

Management structure
The Board has overall responsibility for the Group and each Executive Director has been given responsibility for specific aspects of the Group's affairs.

Corporate accounting and procedures
Responsibility levels are communicated throughout the Group as part of the corporate communication procedure. Accounting, delegation of authority and authorisation levels, segregation of duties and other control procedures, together with the general ethos of the Group are included in these communications, and standardised accounting policies are in place reflecting this policy.

Quality and integrity of personnel
The integrity and competence of personnel is ensured through high recruitment standards and subsequent training courses. Quality personnel are seen as an essential part of the control environment and the ethical standards expected are communicated through senior members of staff.

Budgetary process
Each year the Board approves the annual budget, which includes an assessment of key risk areas. Performance is monitored and relevant action taken throughout the year by monthly reporting to the Board of updated forecasts together with information on key risk areas.

Investment appraisal
Capital expenditure is regulated by the use of authorisation levels, which are currently under review. For all expenditure beyond specified levels, Board approval is required.

Internal monitoring

The Audit Committee considers and determines relevant action in respect of any control issues raised by the Auditors. Given the size of the Group and the close day to day control exercised by the Executive Directors and senior management, no formal financial internal audit department is considered necessary. The Operations Director is responsible for maintaining registrations and quality related certifications and defining and agreeing the procedures, standards and practices to be followed in all aspects of the Group's business.

The Directors have reviewed the effectiveness of the system of internal controls in operation during the year through the compliance monitoring process set out above and by reports from senior managers concerning the operations for which they are responsible. It must be recognised that such a system can provide only reasonable and not absolute assurance and, in that context, the review revealed nothing, which in the opinion of the Directors, indicates that the system was inappropriate or unsatisfactory.

Relations with Shareholders

The Company seeks to maintain good communications with shareholders. The Executive Directors make presentations to institutional shareholders covering the interim and full year results. The Group despatches the notice of Annual General Meetings ('AGM'), with an explanatory circular describing items of special business, at least 21 working days before the meeting. All shareholders have the opportunity formally or informally to put questions to the Company's AGM and the Group CEO makes a statement on current trading conditions at that meeting. The Chairman of the Audit and Remuneration Committees attends the AGM and will answer questions that may be relevant to the remit of those Committees. At each AGM the Chairman advises shareholders of the proxy voting details on each of the resolutions, which are dealt with on a show of hands.

Remuneration Policy

The objective of the group'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.

Service Contracts

The Board's policy is that service contracts of Executive Directors should provide for termination by the Group on one year's notice. The service contracts of each of the current Executive Directors provide for such a period of notice.

The Independent Non-Executive Directors have letters of appointment providing fixed three-year service periods, which may be terminated by giving six months notice.

Non - Executive Directors' Remuneration

The fees for the Chairman and Independent Non-Executive Directors are determined by the Board. The Chairman and Non-Executive Directors are not involved in any discussions or decisions about their own remuneration.

The Chairman and Independent Non-Executive Directors do not receive bonuses or pension contributions and are not entitled to participate in any of the Group's share schemes. They are entitled to be reimbursed the reasonable expenses incurred by them in carrying out their duties as Directors of the Company.

Executive Directors' Remuneration

The remuneration package of the Executive Directors includes the following elements:

Basic salary
Salaries are normally reviewed annually. Pay reviews take into account Group and personal performance.

Performance related pay scheme
The performance related pay scheme for Executive Directors is in line with the scheme covering other senior members of staff. Payments under the scheme are based in part upon the achievement of budgeted profit targets for the Group as appropriate and in part on the achievement of other key performance criteria as set from time to time. The board as a whole decide the remuneration of the non executives. Reflecting the financial results for the year, no performance related payments were made to the directors.

Auditors

A resolution authorising the directors to fix the remuneration of the auditor will be put to shareholders at the forthcoming Annual General Meeting.

Directors' remuneration

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

	Salary & Fees £	Bonus £	Pension contributions £	2009 Total £	2008 Total £
Executive directors					
J McLaughlin	41,000	-	-	41,000	58,252
J S Starr	108,580	-	900	109,480	143,404
R Howard	99,000	-	720	99,720	130,315
A D James	74,500	-	900	75,400	103,585
Non-executive director					
M D Love	7,500	-	-	7,500	7,500
	330,580	-	2,520	333,100	443,056

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 2009	Number of shares under option at 31 December 2008	Exercise price	Grant date
A D James	Nil	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 2009	Ordinary shares of 5 pence each At 31 December 2008
J McLaughlin	1,012,350	1,000,000
J S Starr	1,184,811	1,162,461
R Howard	1,174,811	1,162,461
A D James	40,498	3,355
M D Love	19,231	-

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS FOR THE YEAR ENDED 31 DECEMBER 2009

We have audited the company's financial statements on pages 16 to 39. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the group and the parent company as at 31 December 2009. and of the group's profit for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

David Wragg (Senior Statutory Auditor)
for and on behalf of Saffery Champness

Chartered Accountants
Statutory Auditors

Beaufort House
2 Beaufort Road
Clifton
Bristol
BS8 2AE

Date: 31 March 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 £	2008 £
Revenue	**3**	3,654,883	4,608,198
Cost of sales		(113,151)	(202,998)
Gross profit		3,541,732	4,405,200
Administrative expenses		(2,467,689)	(3,033,799)
Results from operating activities	**4**	1,074,043	1,371,401
Financial income	**5**	6,625	54,171
Profit before tax		1,080,668	1,425,572
Tax expense	**6**	(243,799)	(427,672)
Profit for the year		836,869	997,900
Other comprehensive income:			
Currency translation differences		(17,302)	106,013
Total comprehensive income for the year		819,567	1,103,913

Earnings per share – from continuing activities

	Note	2009	2008
Basic	**7**	15.02p	18.48p
Diluted	**7**	14.68p	17.50p

The notes on pages 22 to 39 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital £	Share premium £	Retained earnings £	Share option £	Foreign exchange £	Total £
Balance at 31 December 2007	270,000	-	1,149,023	26,778	17,736	1,463,537
Comprehensive income						
Profit for the year ended 31 December 2008	-	-	997,900	-	-	997,900
Other comprehensive income						
Exchange differences on translation of overseas operations	-	-	-	-	106,013	106,013
Transactions with owners						
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	-	1,633,923	40,427	123,749	2,068,099
Comprehensive income						
Profit for the year ended 31 December 2009	-	-	836,869	-	-	836,869
Other comprehensive income						
Exchange differences on translation of overseas operations	-	-	-	-	(17,302)	(17,302)
Transactions with owners						
Issue of share capital	13,272	29,607	-	-	-	42,879
Transfer share option reserve on exercised options	-	-	30,153	(30,153)	-	-
Dividends paid	-	-	(594,353)	-	-	(594,353)
Balance at 31 December 2009	283,272	29,607	1,906,592	10,274	106,447	2,336,192

The notes on pages 22 to 39 are an integral part of these consolidated financial statements.

DILLISTONE GROUP PLC

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital £	Share premium £	Retained earnings £	Share option £	Total £
Balance at 31 December 2007	270,000	-	179,597	26,778	476,375
Comprehensive income					
Profit for the year ended 31 December 2008	-	-	628,469	-	628,469
Transactions with owners					
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
Comprehensive income					
Profit for the year ended 31 December 2009	-	-	363,688	-	363,688
Transactions with owners					
Transfer share option reserve on exercised options	-	-	30,153	(30,153)	-
Issue of share capital	13,272	29,607	-	-	42,879
Dividends paid	-	-	(594,353)	-	(594,353)
Balance at 31 December 2009	283,272	29,607	94,554	10,274	417,707

The notes on pages 22 to 39 are an integral part of these consolidated financial statements.

CONSOLIDATED AND COMPANY BALANCE SHEETS
AS AT 31 DECEMBER 2009

		Group		Company	
	Notes	**2009**	**2008**	**2009**	**2008**
ASSETS		**£**	**£**	**£**	**£**
Non-current assets					
Intangible assets	**9**	1,167,060	707,396	-	-
Property plant and equipment	**10**	95,532	158,443	-	-
Investments	**11**	-	-	1,623,264	1,623,264
		1,262,592	865,839	1,623,264	1,623,264
Current assets					
Inventories	**12**	55,989	50,628	-	-
Trade and other receivables	**13**	1,260,494	1,306,748	5,234	-
Cash and cash equivalents		1,819,503	2,352,794	109,833	336,563
		3,135,986	3,710,170	115,067	336,563
Total assets		4,398,578	4,576,009	1,738,331	1,959,827
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	**15**	283,272	270,000	283,272	270,000
Share premium		29,607	-	29,607	-
Retained earnings		1,906,592	1,633,923	94,554	295,066
Share option reserve	**17**	10,274	40,427	10,274	40,427
Translation reserve		106,447	123,749	-	-
Total equity		2,336,192	2,068,099	417,707	605,493
Liabilities					
Non current liabilities					
Deferred tax liability	**6**	93,654	3,000	-	-
Current liabilities					
Trade and other payables	**14**	1,925,075	2,328,489	1,320,624	1,304,943
Current tax payable		43,657	176,421	-	49,391
Total liabilities		2,062,386	2,507,910	1,320,624	1,354,334
Total liabilities and equity		4,398,578	4,576,009	1,738,331	1,959,827

The notes on pages 22 to 39 are an integral part of these consolidated financial statements.

The financial statements were approved by the board of directors and authorised for issue on 31 March 2010. They were signed on its behalf by

J S Starr - Director

Company Registration No. 4578125

CONSOLIDATED CASH FLOW STATEMENT
AS AT 31 DECEMBER 2009

Operating activities	2009 £	2009 £	2008 £	2008 £
Profit from operations	1,074,043		1,371,401	
Less taxation paid	(285,909)		(552,074)	
Adjustment for				
Depreciation and amortisation	160,208		132,712	
Share option expense	-		13,649	
Operating cash flows before movement in working capital	948,342		965,688	
Decrease/(increase) in receivables	46,254		(22,558)	
(Increase) in inventories	(5,361)		(48,294)	
(Decrease)/increase in payables	(403,414)		480,451	
Net cash generated from operating activities		585,821		1,375,287
Investing activities				
Interest received	6,625		54,171	
Purchases of property plant and equipment	(20,431)		(71,747)	
Investment in development costs	(536,530)		(131,579)	
Net cash used in investing activities		(550,336)		(149,155)
Financing activities				
Proceeds from issue of share capital	42,879		-	
Dividends paid	(594,353)		(513,000)	
Net cash used by financing activities		(551,474)		(513,000)
Net (decrease)/increase in cash and cash equivalents		(515,989)		713,132
Cash and cash equivalents at beginning of year		2,352,794		1,533,649
Effect of foreign exchange rate changes		(17,302)		106,013
Cash and cash equivalents at end of year		1,819,503		2,352,794

The notes on pages 22 to 39 are an integral part of these consolidated financial statements.

DILLISTONE GROUP PLC

COMPANY CASH FLOW STATEMENT
AS AT 31 DECEMBER 2009

Operating activities	**2009 £**	**2009 £**	**2008 £**	**2008 £**
Profit from operations	363,688		628,469	
Less taxation paid	(49,391)		-	
Adjustment for				
Share option expense	-		13,649	
Operating cash flows before movements in working capital	314,297		642,118	
(Increase)/decrease in receivables	(5,234)		292,265	
Increase/(decrease) in payables	15,681		(89,185)	
Net cash generated from operating activities		324,744		845,198
Financing activities				
Dividends paid	(594,353)		(513,000)	
Issue of share capital	42,879		-	
Net cash used in financing activities		(551,474)		(513,000)
Net (decrease)/increase in cash and cash equivalents		(226,730)		332,198
Cash and cash equivalents at beginning of year		336,563		4,365
Cash and cash equivalents at end of year		109,833		336,563

The notes on pages 22 to 39 are an integral part of these consolidated financial statements.

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 31 March 2010.

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"), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. In publishing the company financial statements here together with the Group financial statements, the company has taken advantage of the exemption in s408 of the Companies Act 2006 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 1.6 and 1.8).

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 Going concern

The group's business activities and financial position, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 3 to 8. In addition, note 2 to the financial statements include the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The group has considerable financial resources together with well established relationships with a number of customers and suppliers across different geographic areas.

As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

1. Accounting policies (continued)

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.3 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.

1.4 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.

1.5 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.

1.6 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.

1.7 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

1. Accounting policies (continued)

1.8 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 for versions of the group's Filefinder product is amortised over its useful life of 3 years, commencing a year following the costs being incurred.

Capitalised product development expenditure for the company's **.**Net platform is amortised over its useful life of 10 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.

1.9 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

1.10 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. Accounting policies (continued)

1.11 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.

1.12 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.

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

1.14 Inventory
Inventory being licences for re-sale are valued at the lower of cost and net realisable value on a FIFO basis.

1.15 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.

1.16 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.

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

1.18 Share capital
Ordinary shares are classified as equity.

1.19 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. Accounting policies (continued)

1.20 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.

1.21 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.

(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 UKMEA 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.

2. Financial risk management (continued)

(v) Credit risk
Historically the cash collection profile has been excellent, and the bad debt charge has also historically been 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.

2.2 Capital risk management
The group's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders.

The group sets the amount of capital in proportion to risk. The group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets.

The company has no debt, and therefore the total capital managed by the group as at the year end was its total equity balance of £2,336,192 (2008: £2,068,099). Further details in respect of movements in capital are provided in the statement of changes in equity.

2.3 Quantitative risk analysis

Foreign currency
At the year end, the Group had assets totalling £699,644 and liabilities totalling £477,301 denominated in Euros (2008: assets totalling £329,468 and liabilities totalling £566,874), assets totalling £625,879 and liabilities totalling £505,688 denominated in US Dollars (2008: assets totalling £583,553 and liabilities totalling £623,139) and assets totalling £113,387 and liabilities totalling £19,077 denominated in Australian Dollars (2008: assets totalling £214,838 and liabilities totalling £63,876). 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 total comprehensive income of £21,842 (2008: decrease of £5,296).

Interest rate risk
At the year end, the Group had positive cash balances totalling £1,819,503 (2008 - £2,352,794). 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 £6,625 (2008: decrease of £4,098).

2. Financial risk management (continued)

Credit risk

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

	2009	2008
	£	£
Current	795,085	1,077,263
1 - 60 days overdue	291,156	52,993
More than 60 days overdue	78,370	35,129
Total	1,164,611	1,165,385

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.

2.4 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

Management principally monitors the group's operations in terms of geographical areas and accordingly the segment reporting is presented below by geographical area.

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

3. Segment reporting (continued)

For the year ended 31 December 2009

	UKMEA	Europe	USA	Asia-Pacific	Total
	£	£	£	£	£
Segment revenue	1,527,669	962,902	810,272	354,040	3,654,883
Depreciation and amortisation expense	157,350	-	1,970	887	160,207
Segment result	178,469	761,050	358,020	149,790	1,447,329
Central costs					(373,286)
Operating profit					1,074,043
Income tax expense	147,859	-	48,968	46,972	243,799
Additions of non-current assets	556,961	-	-	-	556,961
Segment assets	2,486,667	678,252	625,879	113,387	3,904,185
Central assets - goodwill					494,393
Total assets					4,398,578
Segment liabilities	1,081,713	455,908	505,688	19,077	2,062,386

For the year ended 31 December 2008

	UKMEA	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
Income tax expense	275,487	-	45,060	107,123	427,670
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

3. Segment reporting (continued)

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

Revenue

	2009	2008
	£	£
Recurring income	2,344,122	2,245,943
Non-recurring income	1,310,761	2,362,255
	3,654,883	4,608,198

Recurring income includes all support services, ASP and 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. Results from operating activities

	2009	2008
	£	£
Result from operating activities is stated after charging:		
Depreciation	83,342	68,694
Amortisation	76,866	64,018
Gain on foreign exchange transactions	(37,989)	(11,711)
Operating lease rentals - land and buildings	103,698	97,620
Money purchase pension contributions	26,199	32,285
Fees receivable by the group auditors:		
Audit of financial statements	25,450	19,860
Other services:		
Audit of accounts of subsidiary of the company	12,000	12,140
Other services relating to taxation	13,100	5,720
All other services	4,000	6,800

5. Financial income

	2009 £	2008 £
Interest receivable	6,625	54,171

6. Tax expense

	2009 £	2008 £
Current tax	150,145	427,672
Deferred tax	93,654	-
Income tax expense for the year	243,799	427,672
Factors affecting the tax charge for the year		
Profit before tax	1,080,668	1,425,572
Effective rate of taxation	27.90%	30.00%
Profit before tax multiplied by the effective rate of tax	301,506	427,672
Effects of :		
Change in tax rate	(570)	(25,301)
Qualifying R&D relief	(163,896)	-
Non deductible expenses	11	(40,067)
Adjustments for overseas tax paid	-	57,829
Depreciation and amortisation disallowed	22,515	26,538
Capital allowances	(9,421)	(18,999)
Deferred tax charge	93,654	-
Tax expense	243,799	427,672

Deferred tax provided in the financial statements is as follows:

	Group		Company	
	2009 £	2008 £	2009 £	2008 £
Accelerated capital allowances	93,654	3,000	-	-

7. Earnings per share

	2009	2008
Profit attributable to ordinary shareholders	£836,869	£997,900
Weighted average number of shares	5,572,440	5,400,000
Basic earnings per share	15.02 pence	18.48 pence
Weighted average number of shares after dilution	5,701,325	5,702,087
Fully diluted earnings per share	14.68 pence	17.50 pence

8. Profit for the financial year

As permitted by section 408 of the Companies Act 2006, the holding company's profit and loss account has not been included in these financial statements. The profit for the financial year for the holding company was £363,688 (2008 - £628,469).

9. Intangible assets

Group	**Development costs**	**Goodwill**	**Total**
	£	**£**	**£**
Cost			
At 1 January 2008	378,395	494,393	872,788
Additions	131,579	-	131,579
At 31 December 2008	509,974	494,393	1,004,367
Additions	536,530	-	536,530
At 31 December 2009	1,046,504	494,393	1,540,897
Amortisation			
At 1 January 2008	232,953	-	232,953
Charge for the year	64,018	-	64,018
At 31 December 2008	296,971	-	296,971
Charge for the year	76,866	-	76,866
At 31 December 2009	373,837	-	373,837
Carrying amount			
At 31 December 2009	672,667	494,393	1,167,060
At 31 December 2008	213,003	494,393	707,396
At 31 December 2007	145,442	494,393	639,835

10. Property, plant and equipment

Group	Land and buildings	Office & computer equipment	Fixtures and fittings	Total
	£	£	£	£
Cost				
At 1 January 2008	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
Additions	-	20,431	-	20,431
At 31 December 2009	163,073	270,189	25,274	458,536
Depreciation				
At 1 January 2008	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
Charge for the year	32,693	49,609	1,040	83,342
At 31 December 2009	110,204	228,278	24,522	363,004
Carrying Amount				
At 31 December 2009	52,869	41,911	752	95,532
At 31 December 2008	85,562	71,089	1,792	158,443
At 31 December 2007	118,254	33,264	3,872	155,390

11. Non-current asset investments

Company

	Unlisted investments £
Cost	
At 1 January 2009 & 31 December 2009	1,623,264

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	
	2009 £	2008 £	2009 £	2008 £
Licences for resale	55,989	50,628	-	-

13. Trade and other receivables

	Group		Company	
	2009	**2008**	**2009**	**2008**
	£	**£**	**£**	**£**
Trade and other receivables	1,164,611	1,165,385	-	-
Group receivables	-	-	-	-
Other current assets	-	-	5,234	-
Prepayments and accrued income	95,883	141,363	-	-
	1,260,494	1,306,748	5,234	-

14. Trade and other payables

	Group		Company	
	2009	**2008**	**2009**	**2008**
	£	**£**	**£**	**£**
Trade and other payables	294,361	467,146	16,498	12,652
Group payables	-	-	1,292,126	1,266,417
Deferred income	1,522,665	1,614,836	-	-
Accruals	108,049	246,507	12,000	25,874
	1,925,075	2,328,489	1,320,624	1,304,943

15. Share capital

	2009	**2008**
	£	**£**
Authorised		
10,000,000 Ordinary shares of 5 pence each	500,000	500,000
Allotted, called up and fully paid		
5,665,441 Ordinary shares of 5 pence each (2008: 5,400,000 Ordinary shares of 5 pence each)	283,272	270,000

During the year 265,441 Ordinary shares of 5 pence were issued for a consideration of £42,879.

16. Operating lease arrangements

The group leases offices under non-cancellable operating lease agreements.

At 31 December 2009 the Group had future total commitments under non-cancellable operating leases as follows:

	2009 £	2008 £
Commitments payable:		
Within one year	83,736	67,504
Between two and five years	244,406	23,106

17. Share options

As at 31 December 2009, 5 employees including directors (2008: 32 employees including directors) held options (granted on 3 May 2006 and 14 September 2007) over a total of 35,884 (2008 - 301,325) ordinary shares at an average exercise price of 204.44p (2008 – 36.86p), as follows:

Date of grant	Number of shares under option at 31 December 2008	Exercised during the year	Number of shares under option at 31 December 2009	Exercise price
3 May 2006	277,325	(265,441)	11,884	16.15p
14 September 2007	24,000	-	24,000	297.5p
	301,325	(265,441)	35,884	

265,441 share options were exercised during the year. The weighted average share price at the date of exercise was £1.12 per share.

17. Share options (continued)

One director exercised share options during the year. The company's share price on 31 December 2009 was 117.50p.

The weighted average time to expiry of the share options outstanding at 31 December 2009 was 0.7 years (2008 - 0.45 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 £3,722. 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:

	2009	**2008**
Operations	43	41
Management	4	4
Employee numbers	47	45

Their aggregate remuneration comprised:

	2009	**2008**
	£	**£**
Wages and salaries	1,480,545	1,668,543
Social security costs	171,116	209,452
Pension costs	26,199	32,960
	1,677,860	1,910,955

The directors' remuneration is disclosed 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 S Starr	1,184,811
R Howard	1,174,811
J McLaughlin	1,012,350

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 £nil (2008 - £291,250) and a dividend of £309,743 from its subsidiary company Dillistone Systems (US) Inc. At the year end Dillistone Systems (US) Inc owed the company £nil(2008 - £nil).

During the current year Dillistone Systems Limited paid a dividend of £284,610 (2008: £513,000) to Dillistone Group Plc. The company was recharged salary expenses by Dillistone Systems Limited of £379,883 (2008 - £491,399), and was paid a management charge of £254,481 (2008 - £500,000). At the year end Dillistone Systems Limited was owed £1,224,977 (2008 - £1,208,815).

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 (2008 - £58,736).

The directors received dividends paid by the company of £360,329 (2008: £332,625).

21. Dividends

The dividends paid in 2009 and 2008 were £594,353 (10.5p per share) and £513,000 (9.5p per share) respectively. A second interim dividend in respect of the year ended 31 December 2009 of £396,581 (7p per share) will be paid on 1 April 2010. These financial statements do not reflect this dividend.