

Dillistone Group Plc

Company No. 4578125

**UNAUDITED INTERIM REPORT
FOR THE SIX MONTHS ENDED
30 JUNE 2010**

Dillistone Group Plc

Contents

	Page
Highlights	3
Chairman's Statement	3-4
Independent Review Report to Dillistone Group Plc	5-6
Consolidated Statement of Comprehensive Income	7
Consolidated Statement of Financial Position	8
Consolidated Statement of Cash Flows	9
Consolidated Statement of Changes in Equity	10
Notes to the Unaudited Interim Report	11-14

Dillistone Group Plc

Highlights to the unaudited Interim report for the six months ended 30 June 2010

- Revenue up 8% to £1.968m
 - Non-recurring revenues up 22% to £0.755m
 - Recurring revenues of £1.213m up 1% on H1 2009 (£1.204m) and 6% on H2 2009 (£1.140m)
- Operating profits up 10% to £0.511m
- Basic earnings per share up 3.9% to 6.67p
- Increase in subscription based sales – offering increased confidence in visibility of future revenues
- Net cash inflow over period – cash of £1.912m at 30 June 2010
- The Group continues to be debt free
- Dividend policy maintained, with Interim payment of 3.5p due in November
- Strong project pipeline carried into H2 2010

“Against an unsettled economic backdrop, these results represent excellent progress. We are carrying a strong pipeline into H2 2010 and this, along with our high level of recurring revenues, gives us confidence in our ability to meet market expectations for the full year.”

Dr Mike Love, Chairman

Chairman’s Statement

The Group has had an excellent start to 2010 with a number of significant indicators showing an improvement over the same period in the previous year.

Financial Performance

Revenue in the 6 months ended 30 June 2010 increased by 8% to £1.968m (2009: £1.822m) with operating profits showing an increase of 10% to £0.511m (2009: £0.466m). Administrative costs increased by 8% to £1.397m (2009: £1.296m), with the increase due mainly to higher depreciation costs (increase of £0.022m) and one-off costs of £0.048m.

Recurring revenues increased by 1% to £1.213m (2009: £1.204m) and by 6% over the £1.140m of recurring revenues earned in the second half of 2009. Recurring revenues in the 6 months to 30 June 2010 accounted for 62% of total revenues (2009: 66%). It should be noted that we are increasingly delivering our platform via a subscription pricing model.

Non recurring revenues saw a 22% growth to £0.755m (2009: £0.618m). This reflects a significant year-on-year improvement in new contract wins.

Regionally, our European division saw a 19% fall in revenues and Asia Pacific saw a 77% increase. The UK, Middle East and Africa (“UKMEA”) business saw revenues increase by 17% and the US division showed a marginal increase of 2% in revenues for the same period. The profitability of the European business has been impacted by a management charge from the UKMEA business.

Dillistone Group Plc

Cash flow in the 6 months ended 30 June 2010 showed a net cash inflow of £0.107m (2009: outflow £0.532m). The main elements of expenditure related to dividends in the period of £0.396m (2009: £0.396m) and investment in new product development of £0.279m (2009: £0.235m). At 30 June 2010 we had cash reserves of £1.912m (2009: £1.795m). The Group does not have any borrowings.

The tax provision increased to £0.134m in the period to 30 June 2010 (2009: £0.119m). This gives an effective global tax rate of 26.2% (2009: 25.3%). The 2009 and 2010 rates have been reduced by a claim in the UKMEA for research and development tax credit reflecting the continuing development of our products.

Basic earnings per share amounted to 6.67p (2009: 6.42p). As announced in our annual report for 2009, the Board has decided to maintain the Interim dividend for 2010 at the same level as was paid in respect of 2009, and accordingly a dividend of 3.5p per share (2009: 3.5p) will be paid on 5 November 2010 to holders on the register on 8 October 2010. Shares will trade ex-dividend from 6 October 2010.

Board Changes

Jim McLaughlin resigned as Executive Chairman and Finance Director in February 2010 and I stepped into the role of Non-Executive Chairman. Julie Pomeroy joined us as Finance Director in April 2010 and has also become Company Secretary. Giles Fearnley became a Non-Executive Director in May and is chair of the audit committee.

Outlook

The Group has made an excellent start to the year, a performance which does not appear to be reflected in a peer group comparison across the sector. A strong project pipeline was carried into the second half of 2010 yet we remain cautious.

While continued uncertainty about the state of the economy makes it difficult to predict long term performance, our post period performance, combined with this excellent start to the year underpins our confidence in our ability to achieve market expectations for 2010.

The Group enjoys a strong balance sheet and remains debt free. As such, the Board considers it well placed to compete in the global market place in which it operates.

The Board continues to follow a growth strategy and will, as part of this strategy, consider acquisitions or joint ventures that would enhance its product portfolio and deliver shareholder value.

Mike Love

23 September 2010

Dillistone Group Plc

Independent Review Report

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 which comprises specifically the primary financial statements and the related explanatory notes that have been reviewed. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the London Stock Exchange's AIM Rules for Companies. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules for Companies.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become

Dillistone Group Plc

aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules for Companies.

Saffery Champness

Chartered Accountants

Beaufort House
2 Beaufort Road
Clifton
Bristol
BS8 2AE

23 September 2010

Dillistone Group Plc

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>6 Months ended 30 June</i>		<i>Year ended</i>
	<i>2010</i>	<i>2009</i>	<i>31</i>
	<i>Unaudited</i>	<i>Unaudited</i>	<i>December</i>
	<i>£000</i>	<i>£000</i>	<i>2009</i>
			<i>Audited</i>
			<i>£000</i>
Revenue	1,968	1,822	3,655
Cost of sales	(60)	(60)	(113)
Gross profit	1,908	1,762	3,542
Administrative expenses	(1,397)	(1,296)	(2,468)
Result from operating activities	511	466	1,074
Financial income	1	5	7
Profit before tax	512	471	1,081
Tax expense	(134)	(119)	(244)
Profit for the period/year	378	352	837
Other comprehensive income:			
Currency translation differences	(14)	(25)	(17)
Total comprehensive income for period/year	364	327	820
Earnings per share (pence)			
Basic	6.67	6.42	15.02
Diluted	6.63	6.17	14.68

Dillistone Group Plc

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>As at 30 June</i>		<i>As at</i>
	<i>2010</i>	<i>2009</i>	<i>31</i>
	<i>Unaudited</i>	<i>Unaudited</i>	<i>December</i>
	<i>£000</i>	<i>£000</i>	<i>2009</i>
			<i>Audited</i>
			<i>£000</i>
ASSETS			
Non-current assets			
Intangible assets	1,394	912	1,167
Property plant & equipment	83	132	96
	<u>1,477</u>	<u>1,044</u>	<u>1,263</u>
Current assets			
Inventories	28	31	56
Trade and other receivables	1,242	1,311	1,260
Cash and cash equivalents	1,912	1,795	1,819
	<u>3,182</u>	<u>3,137</u>	<u>3,135</u>
Total assets	<u><u>4,659</u></u>	<u><u>4,181</u></u>	<u><u>4,398</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	283	283	283
Share premium	30	29	30
Share option reserve	12	9	10
Retained earnings	1,889	1,621	1,907
Translation reserve	92	99	106
Total equity	<u>2,306</u>	<u>2,041</u>	<u>2,336</u>
Liabilities			
Non current liabilities			
Deferred tax	141	3	93
Current liabilities			
Trade and other payables	2,117	2,014	1,925
Current tax payable	95	123	44
Total liabilities	<u>2,353</u>	<u>2,140</u>	<u>2,062</u>
Total liabilities and equity	<u><u>4,659</u></u>	<u><u>4,181</u></u>	<u><u>4,398</u></u>

The interim report was approved by the board of directors and authorised for issue on 23 September 2010.

They were signed on its behalf by:

J S Starr

J P Pomeroy

Dillistone Group Plc

CONSOLIDATED STATEMENT OF CASH FLOWS

	6 Months ended 30 June		Year ended 31 December
	2010	2009	2009
	Unaudited	Unaudited	Audited
	£000	£000	£000
Operating Activities			
Profit from operations	511	466	1,074
Less taxation paid	(35)	(173)	(286)
Adjustment for			
Depreciation	93	71	160
Share option expense	2	-	-
Operating cash flows before movements in working capital	571	364	948
Decrease / (Increase) in receivables	18	(5)	46
Decrease / (Increase) in inventories	28	20	(5)
(Decrease) / Increase in payables	192	(314)	(403)
Net cash generated from operating activities	809	65	586
Investing Activities			
Interest received	1	6	7
Purchases of property plant and equipment	(28)	(14)	(20)
Investment in product development	(279)	(235)	(537)
Net cash used in investing activities	(306)	(243)	(550)
Financing Activities			
Proceeds from issue of share capital	-	42	42
Dividends paid	(396)	(396)	(594)
Net cash used by financing activities	(396)	(354)	(552)
Net change in cash and cash equivalents	107	(532)	(516)
Cash and cash equivalents at beginning of the period	1,819	2,352	2,352
Effect of foreign exchange rate changes	(14)	(25)	(17)
Cash and cash equivalents at end of period	1,912	1,795	1,819

Dillistone Group Plc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<i>Share capital £000</i>	<i>Share premium £000</i>	<i>Share option reserve £000</i>	<i>Retained earnings £000</i>	<i>Foreign exchange £000</i>	<i>Total £000</i>
Balance at 31 December 2008	270	-	40	1,634	124	2,068
Profit for the 6 months ended 30 June 2009	-	-	-	352	-	352
Issue of share capital	13	29	-	-	-	42
Share option release	-	-	(31)	31	-	-
Exchange differences on translation of overseas operations	-	-	-	-	(25)	(25)
Dividends paid	-	-	-	(396)	-	(396)
Balance at 30 June 2009	283	29	9	1,621	99	2,041
Profit for the 6 months ended 31 December 2009	-	-	-	485	-	485
Issue of share capital	-	1	-	-	-	1
Share option release	-	-	1	(1)	-	-
Exchange differences on translation of overseas operations	-	-	-	-	7	7
Dividends paid	-	-	-	(198)	-	(198)
Balance at 31 December 2009	283	30	10	1,907	106	2,336
Profit for the 6 months ended 30 June 2010	-	-	-	378	-	378
Share option charge	-	-	2	-	-	2
Exchange differences on translation of overseas operations	-	-	-	-	(14)	(14)
Dividends paid	-	-	-	(396)	-	(396)
Balance at 30 June 2010	283	30	12	1,889	92	2,306

Dillistone Group Plc

NOTES TO THE UNAUDITED INTERIM REPORT

1. Basis of Preparation

The financial information for the six months ended 30 June 2010 included in this interim report comprises the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes on pages [11 – 14]. This statement has been prepared in accordance with IAS 34 “Interim Financial Reporting”.

This interim financial information is unaudited but has been reviewed by the auditors and their review opinion is included in this interim report. The financial information set out in this report does not constitute statutory accounts as defined by the Companies Act 2006. The comparative figures for the year ended 31 December 2009 were derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. Those accounts received an unqualified audit report which did not contain statements under sections 498(2) or (3) (accounting records or returns inadequate, accounts not agreeing with records and returns or failure to obtain necessary information and explanations) of the Companies Act 2006.

The interim financial statements have been prepared on the basis of the accounting policies set out in the December 2009 financial statements of Dillistone Group Plc.

2. 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.

Dillistone Group Plc

3. Segment reporting

Geographical segments

The following table provides an analysis of the Group's revenues by geographical market.

	6 Months ended 30 June		Year ended
			31 December
	2010	2009	2009
	£000	£000	£000
UKMEA	843	721	1,528
Europe	428	528	963
US	434	424	810
Asia Pacific	263	149	354
	<hr/>	<hr/>	<hr/>
	1,968	1,822	3,655

Business Segment

The following table provides an analysis of the Group's revenues by business segment.

	6 Months ended 30 June		Year ended
			31
	2010	2009	December
	£000	£000	£000
Recurring	1,213	1,204	2,344
Non recurring	755	618	1,311
	<hr/>	<hr/>	<hr/>
	1,968	1,822	3,655

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.

Result

	6 Months ended 30 June		Year ended
			31
	2010	2009	December
	£000	£000	£000
UKMEA	581	23	178
Europe	(169)	409	761
US	150	177	358
Asia Pacific	142	44	150
	<hr/>	<hr/>	<hr/>
	704	653	1,447
Unallocated expenses	(193)	(187)	(373)
	<hr/>	<hr/>	<hr/>
Result from operating activities	511	466	1,074

Dillistone Group Plc

3. Segment reporting (continued)

<i>Total assets</i>	<i>As at 30 June 2010 £000</i>	<i>As at 30 June 2009 £000</i>	<i>As at 31 December 2009 £000</i>
UKMEA	3,293	2,596	2,981
Europe	492	716	678
US	508	554	626
Asia Pacific	366	315	113
	<u>4,659</u>	<u>4,181</u>	<u>4,398</u>

4. Tax

	<i>6 Months ended 30 June 2010 £000</i>	<i>2009 £000</i>	<i>Year ended 31 December 2009 £000</i>
Current tax charge	86	119	150
Deferred tax charge	48	-	94
Total	<u>134</u>	<u>119</u>	<u>244</u>

5. Dividends

A second interim dividend of 7p per share in respect of the year ended 31 December 2009 was paid on 1 April 2010. The total cost of this dividend was £396,581.

The Board has decided to pay an interim dividend of 3.5 pence per share (2009: 3.5p) on 5 November 2010 to holders on the register on 8 October 2010. Shares will trade ex-dividend from 6 October 2010.

Dillistone Group Plc

6. Earnings per Share

	<i>6 Months ended 30th June</i>		<i>Year ended</i>
	<i>2010</i>	<i>2009</i>	<i>31 December</i>
			<i>2009</i>
Basic earnings per share			
Profit attributable to ordinary shareholders	£378,019	£351,737	£836,869
Weighted average number of shares	5,665,441	5,480,739	5,572,440
Basic earnings per share (pence)	<u>6.67</u>	<u>6.42</u>	<u>15.02</u>
Diluted earnings per share			
Profit attributable to ordinary shareholders	£378,019	£351,737	£836,869
Diluted weighted average number of shares	5,701,325	5,701,325	5,701,325
Diluted earnings per share (pence)	<u>6.63</u>	<u>6.17</u>	<u>14.68</u>

7. Related party transactions

The Company has a related party relationship with its subsidiaries, its directors, and other employees of the Company with management responsibility. There were no transactions with these parties during the period outside the usual course of business.

Dividends paid to directors in the period totalled £0.169m.

There were no transactions with any other related parties.