1 April 2010

# DILLISTONE GROUP PLC
## PRELIMINARY ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

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."

**Annual Report and Accounts**

The preliminary results announcement can be downloaded from the Company's website (www.dillistone.com). Copies of the Annual Report and Accounts (as well as the notice of Annual General Meeting) will be sent to shareholders by 30 April 2010 for approval at the Annual General Meeting to be held on 25 May 2010.

**Change of name of Nominated Adviser and Broker**

The Company's nominated adviser has changed its name from Blomfield Corporate Finance Limited to Religare Capital Markets (UK) Limited, and its broker has changed its name from Religare Hichens, Harrison plc to Religare Capital Markets plc; both now trade as Religare Capital Markets.

**Contacts:**


| | | |
|---|---|---|
| Mike Love<br>Chairman | Dillistone Group Plc | 0207 749 6100 |
| Jason Starr<br>Managing Director | Dillistone Group Plc | 0207 749 6100 |
| Emily Staples (Nomad) | Religare Capital Markets | 0207 444 0800 |
| Daniel Briggs (Broker) | Religare Capital Markets | 0207 444 0500 |

**Chairman and Managing Director's joint statement**

**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 resort 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.

Signed

| | |
|---|---|
| Chairman | Managing Director |
| 31 March 2010 | 31 March 2010 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | *Year Ended 31 December* *2009* £ | *2008* £ |
|---|---|---|---|
| **Revenue** | **2** | 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 | **3** | 1,074,043 | 1,371,401 |
| Financial income | **4** | 6,625 | 54,171 |
| **Profit before tax** | | 1,080,668 | 1,425,572 |
| Tax expense | **5** | (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 - basic (pence) | **6** | 15.02 | 18.48 |
| Earnings per share - fully diluted (pence) | **6** | 14.68 | 17.50 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | 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 |

## CONSOLIDATED BALANCE SHEETS

| | Note | *As at 31 December* *2009* £ | *2008* £ |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | **8** | 1,167,060 | 707,396 |
| Property plant & equipment | **9** | 95,532 | 158,443 |
| | | 1,262,592 | 865,839 |
| **Current assets** | | | |
| Inventories | **10** | 55,989 | 50,628 |
| Trade and other receivables | **11** | 1,260,494 | 1,306,748 |
| Cash and cash equivalents | | 1,819,503 | 2,352,794 |
| | | 3,135,986 | 3,710,170 |
| **Total assets** | | 4,398,578 | 4,576,009 |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | **13** | 283,272 | 270,000 |
| Share premium | | 29,607 | - |
| Retained earnings | | 1,906,592 | 1,633,923 |
| Share option reserve | **15** | 10,274 | 40,427 |
| Translation reserve | | 106,447 | 123,749 |
| **Total equity** | | 2,336,192 | 2,068,099 |
| **Liabilities** | | | |
| Non current liabilities | | | |
| Deferred tax | **5** | 93,654 | 3,000 |
| Current liabilities | | | |
| Trade and other payables | **12** | 1,925,075 | 2,328,489 |
| Current tax payable | | 43,657 | 176,421 |
| Total liabilities | | 2,062,386 | 2,507,910 |
| **Total liabilities and equity** | | 4,398,578 | 4,576,009 |

The financial statements were approved by the board on 31 March 2010. They were signed on its behalf by J S Starr, Managing Director.

**CONSOLIDATED CASH FLOW STATEMENT**

| | *Year Ended 31 December* *2009* *£* | *2008* *£* |
|---|---|---|
| **Operating activities** | | |
| Profit for the year | 1,074,043 | 1,371,401 |
| Less taxation paid | (285,909) | (552,074) |
| Adjustment for | | |
| depreciation | 160,208 | 132,712 |
| share option charge/(release) | - | 13,649 |
| Operating cash flows before movements 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 of issue of shares | 42,879 | - |
| Dividends paid | (594,353) | (513,000) |
| Net cash provided by financing activities | (551,474) | (513,000) |
| Net increase/(decrease) 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 |

## NOTES TO THE PRELIMINARY ANNOUNCEMENT

### 1. Basis of accounting

The financial information set out above does not constitute Dillistone Group Plc's statutory accounts for the years ended 31 December 2009 or 2008 but is derived from those accounts. Statutory accounts for 2008 have been delivered to the registrar of companies, and those for 2009 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 237 (2) or (3) of the Companies Act 1985 in respect of the accounts for 2008 nor a statement under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for 2009.

The financial information in this announcement has been prepared on the basis of the accounting policies set out in the last published set of annual financial statements.

The announcement was approved by the board of directors on 31 March 2010.

### 2. 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.

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

**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 |

## 2. Segment reporting (continued)

**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 |

*Business Segment*

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

| | *Year Ended 31 December* | |
|---|---|---|
| | *2009* | *2008* |
| | *£* | *£* |
| Recurring | 2,344,122 | 2,245,943 |
| Non-recurring | 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.

## 3. 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 |

## 4. Financial income

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

## 5. 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 |

## 5. Tax expense (continued)

Deferred tax provided in the financial statements is as follows:

| | 2009<br>£ | 2008<br>£ |
|---|---|---|
| Accelerated capital allowances | 93,654 | 3,000 |

## 6. 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 |

## 7. 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).

## 8. Intangible assets

| | Development costs<br>£ | Goodwill<br>£ | Total<br>£ |
|---|---|---|---|
| **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 |

## 9. Property, plant and equipment

| | 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 |

## 10. Inventories

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

## 11. Trade and other receivables

| | 2009 | 2008 |
|---|---|---|
| | £ | £ |
| Trade and other receivables | 1,164,611 | 1,165,385 |
| Prepayments and accrued income | 95,883 | 141,363 |
| | 1,260,494 | 1,306,748 |

## 12. Trade and other payables

| | 2009 | 2008 |
|---|---|---|
| | £ | £ |
| Trade and other payables | 294,361 | 467,146 |
| Deferred income | 1,522,665 | 1,614,836 |
| Accruals | 108,049 | 246,507 |
| | 1,925,075 | 2,328,489 |

## 13. 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 each were issued for a consideration of £42,879.

## 14. 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 |

## 15. 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 | Earliest exercise date |
|---|---|---|---|---|---|
| 3 May 2006 | 277,325 | (265,441) | 11,884 | 16.15p | 3 May 2009 |
| 14 September 2007 | 24,000 | - | 24,000 | 297.5p | 14 September 2010 |
| | 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.

Dillistone Group Plc'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% |

## 16. 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.

## 17. 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 |

## 18. Dividends

The dividends paid in 2009 and 2008 were £594,353 (10.5p per share) and £513,000 (9.5p per share) respectively. A further 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 further interim dividend.