Company Registration No. 4578125 (England and Wales)

Dillistone
Group Plc

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2010

DILLISTONE GROUP PLC

CONTENTS

Highlights for the year:

- Revenues up 16% to £4.3m with non recurring revenues up 31%
- Record level of recurring revenues at £2.5m
- Operating profits up 9% to £1.2m
- Final dividend of 7p per share recommended, making total dividend for year of 10.5p
- Cash funds of £2.1m up 18%. The Group remains debt free
- Clients in 61 countries world wide
- Delivery of our largest ever US based implementation
- FileFinder 10 launched on 31 March 2011

Commenting on the results, Mike Love, Non-Executive Chairman, said:
"Dillistone has made excellent progress in 2010 despite the broader economic uncertainty. We have grown the client base, invested in product development and delivered an increase in profits.

"We are a market leader in the executive recruitment software industry where our products are business critical to our clients. We are committed to investing in maintaining and building on that advantage for the benefit of both clients and shareholders. The release of 'FileFinder 10' is evidence of this strategy."

DIRECTORS AND ADVISERS

Directors	M D Love – Non-Executive Chairman J S Starr – Managing Director R Howard – Operations Director A D James – Product Development Director J P Pomeroy – Finance Director G R Fearnley – Non-Executive Director A F Milne – Director of Support Services
Secretary	J P Pomeroy
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
Nominated Adviser	Religare Capital Markets (UK) Limited 100 Cannon Street London, EC4N 6EU
Broker	Religare Capital Markets plc 100 Cannon Street London, EC4N 6EU
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent, BR3 4TU

Results Overview

We entered 2010 with some signs of an improving market, following a very difficult 2009 for the sector and this has been borne out by our results for the year which saw revenue increase by 16% to £4.3m and operating profits increase by 9% to £1.2m. These results are in line with market expectations.

Dillistone is a leading player in the executive recruitment software sector and our continued investment in product development is fundamental to retaining this position in the market. To this end, we have spent over £0.6m in 2010 and launched the new, next generation, release of our core FileFinder product, FileFinder 10, on 31 March 2011. This major new version of FileFinder has been in development since 2008 and represents the realisation of an investment of over £1m. Further details of FileFinder 10 are contained in the Managing Director's Business Review.

Strategy

Dillistone's strategy is to continue to grow the business both organically and through acquisition. Our organic growth is underpinned by our commitment to product development which ensures that the business continues to command a leading role in the sector and that FileFinder is a natural choice for consideration by customers when looking to acquire software in our field.

The Board is also actively pursuing an acquisition strategy. This entails consideration of firms offering:

- executive search products that would increase our share of our core markets; and
- products that would broaden our offering to the recruitment sector.

Investor Relations

The executive management have invested significant time meeting with both existing and potential investors including private client brokers. During 2010 we gained a new significant institutional investor and an additional investment from an existing institutional investor.

To help increase liquidity and marketability of our shares, a resolution will be included at the next annual general meeting (AGM) in June to approve a two for one bonus issue of the Company's shares. Further details will be included in the AGM papers. Having taken appropriate advice, the Board believes that the bonus Issue may enhance and thereby strengthen the equity base of the Company.

Dillistone will continue to review opportunities to broaden its shareholder base.

Dividends

An interim dividend of 3.5p per share was paid in November 2010. The Board has recommended a final dividend of 7p per share, subject to shareholder approval, payable on 21 June 2011 to holders on the register on 20 May 2011. Shares will trade ex-dividend from 18 May 2011. This takes the total dividend for the year to 10.5p (2009: 10.5p). For the avoidance of doubt, the recommended dividend of 7p per share, which is subject to shareholder approval, is in respect of existing ordinary shares only and not in respect of any new ordinary shares issued as a result of the two for one bonus issue.

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 2010 and is Chair of the audit committee.

Alistair Milne also joined the Board as Director of Support Services with effect from January 2011. Alistair has been with the Group since 2003, and continues as a Director of our UK subsidiary, Dillistone Systems Ltd.

Staff

Our staff are fundamentally important to the success of the business. It is through their efforts, commitment and determination that we continue as a leading player in the executive search software industry and have been able to produce strong results for 2010. On behalf of the Board I would like to take this opportunity to thank all of them.

Outlook

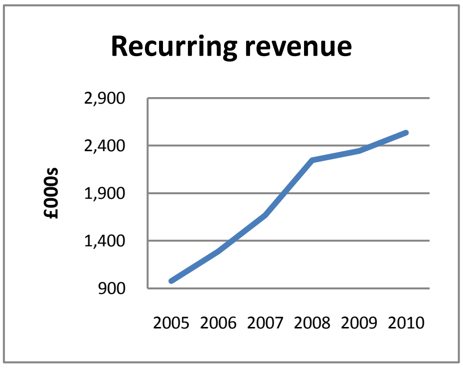
The Group continues to work hard to maintain its position in the sector. The launch of our new FileFinder product, FileFinder 10, will underpin this.

We have started 2011 well with a strong order book. However, our approach to the launch of FileFinder 10 is to cautiously roll it out in the first few months. Consequently, we expect trading in the first half of the year to be broadly in line with H1 2010. We expect revenues to increase more strongly once clients and potential clients have had the opportunity to see the benefits of the new product. We anticipate that the real benefits of the investment in FileFinder 10 will be seen in 2012 and beyond.

Dillistone will continue to actively search for suitable acquisitions to enhance its product portfolio and deliver shareholder value. Dillistone also enjoys a strong balance sheet and remains debt free. As such, the Board considers it is well placed to compete in the global market place in which it operates.

Dillistone has made excellent progress in 2010 and I look forward to updating you further at the time of our Annual General Meeting in June.

Dr Mike Love
Chairman

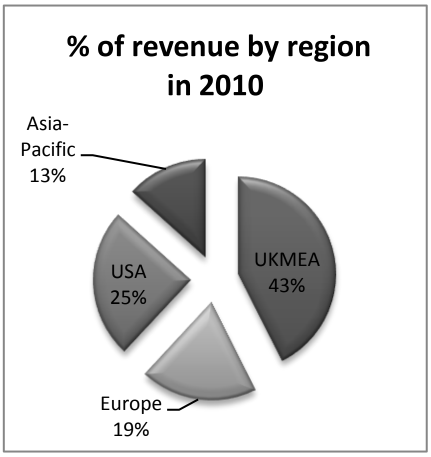


2010 has proven to be a good year for the business. Once again, we believe that we have implemented more systems, in more countries, for more executive search firms, than any comparable supplier. Worldwide, we were signing up an average of 3 new clients every week, with this representing a 50% increase on incoming orders over 2009. We have grown our recurring revenue base to record levels (£2.5m against £2.3m in 2009) and have maintained our excellent reputation for delivery, with 2010 seeing us implement our largest ever US contract (which also represents our largest contract win since our floatation in 2006).

The year has also seen us implement our software outside of our traditional markets, with successful implementations at major corporations (ranked up to Fortune 100 level) and at a number of academic and venture capital institutions. This has been achieved despite much of our focus being on preparing for the launch of our "next generation" software application, FileFinder 10, and despite our target markets still suffering from a degree of economic uncertainty.

We continue to offer our FileFinder products for both outright purchase and under the software as a service (SaaS) model. The latter continues to grow, with 18% of new licence sales in 2010 being under this model (9% in 2009). By offering our products under both models we are able to ensure the delivery of returns to our shareholders in both the short and longer terms.

UK, Middle East and Africa (UKMEA)



Our regional split is somewhat arbitrary, as all of our regions are expected to provide service to all of our clients. That said, our largest region remains UKMEA which accounted for 43% of total sales at £1.8m (2009: £1.5m).

Europe

Our European business continued to feel the effects of the economic downturn with revenues down by 15% to £0.8m (2009: £1.0m). The profits for our European operation in 2010 were £0.1m (2009: £0.8m) after carrying a £0.5m recharge from the UKMEA business.

USA

Our US office is based in New Jersey and primarily looks after our US, Canadian and South American business. We saw revenues increase by 30% in 2010 to £1.1m (2009: £0.8m). The US operations accounted for 25% of total sales in 2010 (2009: 22%).

Australia

Our Asia Pacific business is primarily looked after by our office in Sydney, Australia, and has bounced back strongly after a very difficult 2009. Revenues grew by 60% to £0.6m (2009: £0.4m) and accounted for 13% of total sales (2009: 10%).

As mentioned in the Chairman's Statement, product development is fundamental to retaining a leading position in the executive recruitment software market. On 31 March 2011, we announced the general availability of our "Next Generation" FileFinder system, FileFinder 10.

FileFinder 10 has been in development since 2008 and represents the culmination of an investment of more than £1m. Whilst the product shares many characteristics of previous versions, it has been entirely re-written to take full advantage of Microsoft's .NET Framework.

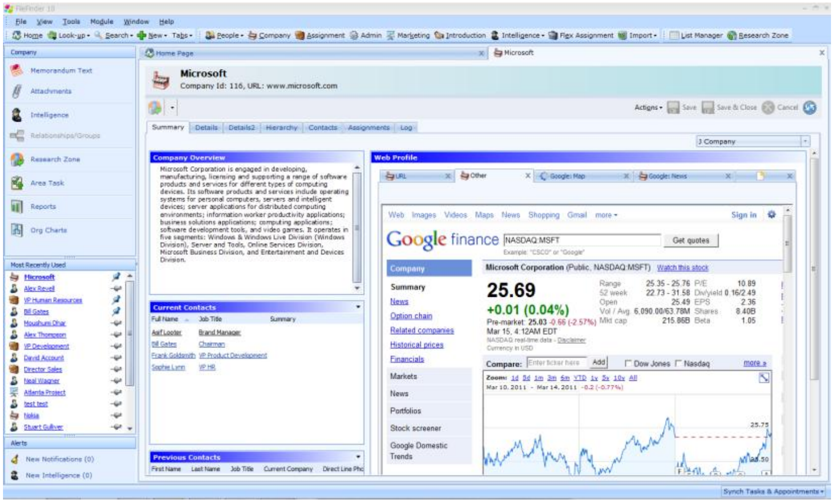
We believe that the new version of the software will bring many advantages to our user base and, in turn, we believe that this will be beneficial to our shareholders:

- FileFinder 10 has a new interface designed to be both more attractive and intuitive. We believe that this will increase our conversion rate and reduce training requirements, thereby allowing us to implement more systems, more quickly;
- the new product may be delivered, when required, entirely on a Microsoft platform. Our historical technology (combining Powerbuilder and Sybase SQL Anywhere) was considered to be disadvantageous, particularly when bidding for corporate clients;
- the new product has been designed to better meet the specific needs of larger executive search firms. We believe that, over time, this will see an increase in our average contract size for new business wins;
- our decision to develop the new generation of FileFinder software using an industry standard platform should make it easier to achieve synergies from any acquisitions we might make; and
- continuing development is important if we are to maintain our support and SaaS contracts. We believe that the launch of FileFinder 10 will facilitate increased client retention.

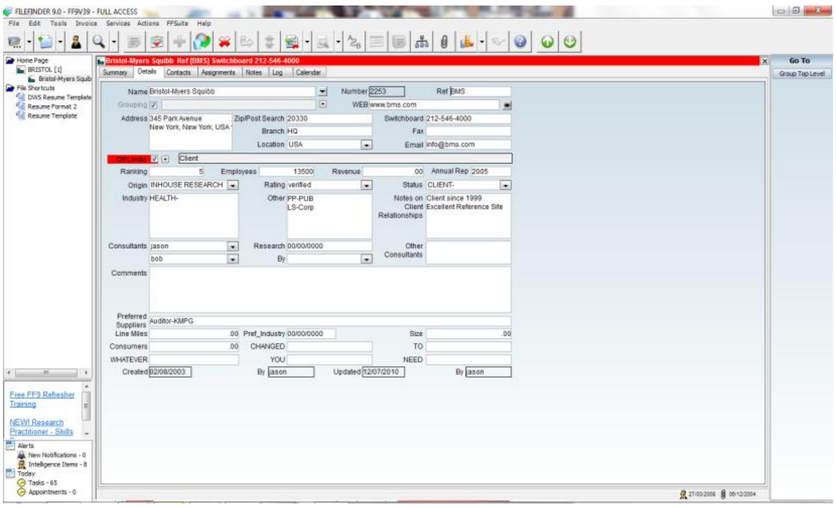
In the build up to the launch of FileFinder 10 on 31 March 2011, we presented the product to a number of existing and potential clients. Feedback was extremely positive, to such an extent that we now have a waiting list of existing clients wishing to upgrade. This waiting list includes clients in 11 countries. In addition to this, we have won a number of contracts from firms wishing to implement FileFinder for the first time. This includes firms in both Europe and the United States, and includes a number of firms which plan to implement FileFinder having previously used competing systems.

The launch of FileFinder 10 is a major step for the business and one which, we believe, will lead to substantial long term benefits. However, it is important for the reputation of the Company that we manage the roll out of the product cautiously. Our budget for the first half of the year reflects this and it is the opinion of the Board that Dillistone will not fully enjoy the benefits of the new product until 2012.

FileFinder 10 offers enhanced user experience over its predecessor



FileFinder 10



FileFinder 9

Jason Starr
Managing Director

FINANCIAL REVIEW
FOR THE YEAR ENDED 31 DECEMBER 2010

Overview

Total revenues increased by 16.3% to £4.3m (2009: £3.7m), with operating profits up 9.4% to £1.2m (2009: £1.1m). Recurring revenues increased by 8.2% to its highest ever level of £2.5m (2009: £2.3m). Non-recurring revenues saw an increase of 30.8% to £1.7m from £1.3m in 2009.

Administrative costs rose 17.1% to £2.9m (2009: £2.5m). This was after a fairly austere 2009 which saw expenditure fall from over £3.0m in 2008 by not awarding staff bonuses, reductions in general marketing and administrative expenditure and staff reductions through natural wastage.

Costs increased in 2010 in part due to some one-off costs in 2010 as well as increased marketing related spend which helped us deliver higher sales. Selective recruitment was also carried out with average staff numbers (excluding directors) in the Group rising from 43 in 2009 to 46 in 2010. Administration costs also include Director and staff bonuses of £0.1m in 2010 (2009: £nil). Excluding 2010 bonuses, administrative costs rose by approximately 11%.

Tax has been provided at an effective rate of 26.2% (2009: 22.6%). This rate reflects the R&D tax credits that have been claimed, though not yet agreed, as well as the higher rates of corporation tax that are payable in the US and Australia.

Profits for the year rose 4.2% to £0.9m (2009: £0.8m). Basic EPS rose 2.5% to 15.39p (2009: 15.02p) while fully diluted EPS rose 4.2% to 15.30p (2009: 14.68p).

Capital expenditure
Dillistone invested £0.7m in fixed assets and product development during the year (2009: £0.6m) of which £0.6m was spent on development costs (2009: £0.5m).

Trade and other receivables
£0.1m (2009: £nil) has been included in non-current assets, reflecting extended payment or billing terms agreed with customers.

Trade and other payables
This liability includes income which has been billed in advance but is not recognised at that time. This principally relates to support renewals which have been billed in December 2010 but that are in respect of services to be delivered in 2011. This also impacts on debtors at the year end. Support income is recognised monthly over the period to which it relates. It also includes deposits taken for work which has not yet been completed as such income is only recognised when the work is complete or the client software goes "live".

Cash
Dillistone finished the year with cash funds of £2.1m (2009: £1.8m) and remains debt free. Operating activities generated strong cash flows which were invested in development costs and also payment of dividends to shareholders.

Julie Pomeroy
Finance Director

The directors present their report and financial statements for the year ended 31 December 2010.

Principal Activities and Review of the Business

The principal activity of the Company continued to be that of a parent company. The principal activity of the Group is the sale of specialist computer software and the provision of related support services. A review of the business is contained on pages 5 to 7

Results and dividends

The consolidated statement of comprehensive income for the year is set out on page 19.

An interim dividend of 3.5p per share (based on 5,665,441 shares in issue at the time) was paid in November 2010. A final dividend of 7p per share will be paid, subject to shareholder approval, on 21 June 2011.

Directors

The following directors have held office since 1 January 2010:
M D Love - (Non-Executive Chairman)
J S Starr
R Howard
A D James
J P Pomeroy - (appointed 19 April 2010)
G R Fearnley - Non-Executive Director - (appointed 1 June 2010)
J McLaughlin – Chairman – (resigned 17 February 2010)
A Milne (appointed 3 January 2011)

The interests of the directors (including family interests) in the share capital of the Company are listed on page 16.

Dr Mike Love and Rory Howard, who are proposed for re-election at the forthcoming AGM, have a service contract with a 1 year notice period. As Alistair Milne and Giles Fearnley have been appointed since the last AGM they are also required to stand for re-election.

Principal shareholders

At the 31 March 2011 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	857,374	15.13%
Herald Investment Management	566,000	9.99%
G Fearnley	331,145	5.84%
Unicorn Asset Management	255,773	4.51%
R Howells	250,000	4.41%
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 2010 was 48 (31 December 2009: 30).

Annual General Meeting

The Company's Annual General Meeting will be held at its offices located at 50-52 Paul Street London, EC2A 4LB on Monday 13 June 2011 at 11:00 am. The Notice convening the Annual General Meeting and an explanation of the business to be put to the meeting is contained in the separate document to shareholders which accompanies this report.

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 P Pomeroy
Company Secretary

4 April 2011

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

For the majority of 2010 the Board comprised a Non-Executive Chairman, one Independent Non-Executive Director and four 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. Giles Fearnley 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. With effect from 3 January 2011 Alistair Milne joined the Board as an Executive Director

The Board meets at least six 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 2010 the Audit Committee comprised the Chairman and Non-Executive Director and met twice during the year.

The Finance Director, 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.

Remuneration Committee

In 2010 the Remuneration Committee comprised the Chairman, the Non-Executive Director and, by invitation, the Group Managing Director and Company Secretary. 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.

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 MD 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.

REPORT TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2010

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, benefits, bonus scheme, share options and longer 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. A bonus of £87,000 was payable to the executive directors in respect of 2010 (2009 - £nil).

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 Payments*	Other payments**	2010 Total	2009 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Executive directors						
J S Starr	109	28	1	-	138	109
R Howard	99	26	1	-	126	100
A D James	75	23	1	-	99	75
J P Pomeroy	37	10	-	-	47	-
J McLaughlin	7	-	-	16	23	41
Non-executive directors						
M D Love	32	-	-	-	32	8
G Fearnley	4	-	-	-	4	-
	363	87	3	16	469	333

* *Includes cash payments in lieu of employer contributions*
** *Compensation payment following resignation*

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 2010	At 31 December 2009
J S Starr	1,184,811	1,184,811
R Howard	1,174,811	1,174,811
A D James	40,498	40,498
M D Love	19,231	19,231
G R Fearnley	331,145	331,145

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS FOR THE YEAR ENDED 31 DECEMBER 2010

We have audited the Company's financial statements on pages 19 to 41. 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK 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. In addition, we read all the financial and non-financial information in the Chairman's Statement, Business Review, Financial Review, Directors' Report, Corporate Governance Report and the Report to the Shareholders on Directors' Remuneration to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2010 and of the group's profit for the year then ended; and
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 matters where the Companies Act 2006 requires 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: 4 April 2011

DILLISTONE GROUP PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £'000	2009 £'000
Revenue	**3**	4,251	3,655
Cost of sales		(187)	(113)
Gross profit		4,064	3,542
Administrative expenses		(2,889)	(2,468)
Results from operating activities	**4**	1,175	1,074
Financial income	**5**	7	7
Profit before tax		1,182	1,081
Tax expense	**6**	(310)	(244)
Profit for the year		872	837
Other comprehensive income:			
Currency translation differences		59	(17)
Total comprehensive income for the year		931	820

Earnings per share – from continuing activities

	Note	2010	2009
Basic	**7**	15.39p	15.02p
Diluted	**7**	15.30p	14.68p

The notes on pages 25 to 41 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital £'000	Share premium £'000	Retained earnings £'000	Share option £'000	Foreign exchange £'000	Total £'000
Balance at 31 December 2008	270	-	1,634	40	123	2,067
Comprehensive income						
Profit for the year ended 31 December 2009	-	-	837	-	-	837
Other comprehensive income						
Exchange differences on translation of overseas operations	-	-	-	-	(17)	(17)
Transactions with owners						
Issue of share capital	13	30	-	-	-	43
Transfer share option reserve on exercised options	-	-	30	(30)	-	-
Dividends paid	-	-	(594)	-	-	(594)
Balance at 31 December 2009	**283**	**30**	**1,907**	**10**	**106**	**2,336**
Comprehensive income						
Profit for the year ended 31 December 2010	-	-	872	-	-	872
Other comprehensive income						
Exchange differences on translation of overseas operations	-	-	-	-	59	59
Transactions with owners						
Share option charge	-	-	-	2	-	2
Dividends paid	-	-	(595)	-	-	(595)
Balance at 31 December 2010	283	30	2,184	12	165	2,674

The notes on pages 25 to 41 are an integral part of these consolidated financial statements.

DILLISTONE GROUP PLC

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital £'000	Share premium £'000	Retained earnings £'000	Share option £'000	Total £'000
Balance at 31 December 2008	270	-	295	40	605
Comprehensive income					
Profit for the year ended 31 December 2009	-	-	364	-	364
Transactions with owners					
Issue of share capital	13	30	-	-	43
Transfer share option reserve on exercised options	-	-	30	(30)	-
Dividends paid	-	-	(594)	-	(594)
Balance at 31 December 2009	283	30	95	10	418
Comprehensive income					
Profit for the year ended 31 December 2010	-	-	1,245	-	1,245
Transactions with owners					
Share option charge	-	-	-	2	2
Dividends paid	-	-	(595)	-	(595)
Balance at 31 December 2010	283	30	745	12	1,070

The notes on pages 25 to 41 are an integral part of these consolidated financial statements.

DILLISTONE GROUP PLC

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Notes	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
ASSETS					
Non-current assets					
Intangible assets	**9**	1,689	1,167	-	-
Property plant and equipment	**10**	71	95	-	-
Investments	**11**	-	-	1,623	1,623
Trade and other receivables	**13**	68	-	-	-
		1,828	1,262	1,623	1,623
Current assets					
Inventories	**12**	55	56	-	-
Trade and other receivables	**13**	1,346	1,260	82	5
Cash and cash equivalents		2,147	1,820	11	110
		3,548	3,136	93	115
Total assets		5,376	4,398	1,716	1,738
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	**15**	283	283	283	283
Share premium		30	30	30	30
Retained earnings		2,184	1,907	745	95
Share option reserve	**17**	12	10	12	10
Translation reserve		165	106	-	-
Total equity		2,674	2,336	1,070	418
Liabilities					
Non current liabilities					
Deferred tax liability	**6**	197	94	-	-
Current liabilities					
Trade and other payables	**14**	2,408	1,925	646	1,320
Current tax payable		97	43	-	-
Total liabilities		2,702	2,062	646	1,320
Total liabilities and equity		5,376	4,398	1,716	1,738

The notes on pages 25 to 41 are an integral part of these consolidated financial statements.

The financial statements were approved by the board of directors and authorised for issue on 4 April 2011. They were signed on its behalf by

J S Starr – Director **Company Registration No. 4578125**

DILLISTONE GROUP PLC

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

Operating activities	**2010 £'000**	**2010 £'000**	**2009 £'000**	**2009 £'000**
Profit from operations	1,175		1,074	
Less taxation paid	(155)		(286)	
Adjustment for				
Depreciation and amortisation	183		160	
Share option expense	2		-	
Operating cash flows before movement in working capital	1,205		948	
Decrease/(increase) in receivables	(154)		46	
Decrease/(increase) in inventories	1		(5)	
(Decrease)/increase in payables	483		(403)	
Net cash generated from operating activities		1,535		586
Investing activities				
Interest received	7		7	
Purchases of property plant and equipment	(56)		(20)	
Investment in development costs	(623)		(537)	
Net cash used in investing activities		(672)		(550)
Financing activities				
Proceeds from issue of share capital	-		43	
Dividends paid	(595)		(594)	
Net cash used by financing activities		(595)		(551)
Net increase/(decrease) in cash and cash equivalents		268		(515)
Cash and cash equivalents at beginning of year		1,820		2,352
Effect of foreign exchange rate changes		59		(17)
Cash and cash equivalents at end of year		2,147		1,820

The notes on pages 25 to 41 are an integral part of these consolidated financial statements.

DILLISTONE GROUP PLC

COMPANY CASH FLOW STATEMENT
AS AT 31 DECEMBER 2010

Operating activities	**2010 £'000**	**2010 £'000**	**2009 £'000**	**2009 £'000**
Profit from operations	1,245		364	
Less taxation paid	-		(49)	
Adjustment for				
Share option expense	2		-	
Operating cash flows before movements in working capital	1,247		315	
(Increase) in receivables	(77)		(5)	
(Decrease)/increase in payables	(674)		15	
Net cash generated from operating activities		496		325
Financing activities				
Dividends paid	(595)		(594)	
Issue of share capital	-		43	
Net cash used in financing activities		(595)		(551)
Net (decrease) in cash and cash equivalents		(99)		(226)
Cash and cash equivalents at beginning of year		110		336
Cash and cash equivalents at end of year		11		110

The notes on pages 25 to 41 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 thousands Pounds Sterling, and were authorised for issue by the directors on 4 April 2011.

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 and Financial Review on pages 5 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 software 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 Development Costs

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 (up to version 9) 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 version 10 **.**Net platform is amortised over its useful life of 10 years, commencing in the year in which the product is first brought into use.

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	33% -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.

1.22 New accounting standards

Of the IFRSs in issue but not effective, IAS 24 Related Party Transactions (Revised), which is effective for accounting periods beginning on or after 1 January 2011, may have an impact upon disclosures in the accounts. However, implication of this and the other standards is not expected to have a significant effect on the Group or Company's results or balance sheet

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 operations trade in their 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.

2. Financial risk management (continued)

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

(v) Credit risk
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.

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 £2,673,000 (2009: £2,336,000). 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 £867,000 and liabilities totalling £440,000 denominated in Euros (2009: assets totalling £700,000 and liabilities totalling £477,000), assets totalling £897,000 and liabilities totalling £540,000 denominated in US Dollars (2009: assets totalling £626,000 and liabilities totalling £506,000) and assets totalling £539,000 and liabilities totalling £159,000 denominated in Australian Dollars (2009: assets totalling £113,000 and liabilities totalling £19,000). 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 £60,000 (2009: decrease of £22,000).

Interest rate risk
At the year end, the Group had positive cash balances totalling £2,147,000 (2009: £1,820,000). 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 £7,000 (2009: decrease of £7,000).

2. Financial risk management (continued)

Credit risk

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

	2010 £'000	2009 £'000
Current	996	795
31 - 60 days overdue	55	291
More than 60 days overdue	110	78
Total	1,161	1,164

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 2010

	UKMEA £'000	Europe £'000	USA £'000	Asia-Pacific £'000	Total £'000
Segment revenue	1,810	823	1,051	567	4,251
Depreciation and amortisation expense	177	1	3	2	183
Segment result	892	138	239	145	1,414
Central costs					(239)
Operating profit					1,175
Income tax expense	163	-	101	46	310
Additions of non-current assets	677			2	679
Segment assets	2,587	867	889	539	4,882
Central assets - goodwill					494
Total assets					5,376
Segment liabilities	1,572	440	532	159	2,703

For the year ended 31 December 2009

	UKMEA £'000	Europe £'000	USA £'000	Asia-Pacific £'000	Total £'000
Segment revenue	1,528	963	810	354	3,655
Depreciation and amortisation expense	157	-	2	1	160
Segment result	178	761	358	150	1,447
Central costs					(373)
Operating profit					1,074
Income tax expense	148	-	49	47	244
Additions of non-current assets	557	-	-	-	557
Segment assets	2,487	678	626	113	3,904
Central assets - goodwill					494
Total assets					4,398
Segment liabilities	1,082	456	505	19	2,062

3. Segment reporting (continued)

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

Revenue

	2010	**2009**
	£'000	**£'000**
Recurring income	2,536	2,344
Non-recurring income	1,715	1,311
	4,251	3,655

Recurring income includes all support services, software as a service income (SaaS) 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

	2010	**2009**
	£'000	**£'000**
Result from operating activities is stated after charging:		
Depreciation	82	83
Amortisation	101	77
Gain on foreign exchange transactions	-	(38)
Operating lease rentals - land and buildings	118	104
Money purchase pension contributions	22	26
Fees receivable by the Group auditors:		
Audit of financial statements	15	25
Other services:		
Audit of accounts of subsidiary of the Company	14	12
Other services relating to taxation	11	13
All other services	17	4

5. Financial income

	2010 £'000	2009 £'000
Interest receivable	7	7

6. Tax expense

	2010 £'000	2009 £'000
Current tax	207	150
Deferred tax	103	94
Income tax expense for the year	310	244
Factors affecting the tax charge for the year		
Profit before tax	1,182	1,081
UK rate of taxation	28%	28%
Profit before tax multiplied by the UK rate of taxation	331	302
Effects of :		
Overseas tax rates	37	(1)
Deferred tax not provided	3	13
Enhanced R&D relief	(76)	(70)
Disallowed expenses	15	-
Rate change impact on deferred tax	(16)	
Prior Year adjustments	13	-
Exchange rate	3	-
Tax expense	310	244

Deferred tax provided in the financial statements is as follows:

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Accelerated intangible amortisation	197	94	-	-

7. Earnings per share

	2010	2009
Profit attributable to ordinary shareholders	£872,000	£837,000
Weighted average number of shares	5,665,441	5,572,440
Basic earnings per share	15.39 pence	15.02 pence
Weighted average number of shares after dilution	5,699,857	5,701,325
Fully diluted earnings per share	15.30 pence	14.68 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 £1,245,000 (2009: £364,000).

9. Intangible assets

Group	Development costs £'000	Goodwill £'000	Total £'000
Cost			
At 1 January 2009	510	494	1,004
Additions	537	-	537
At 31 December 2009	1,047	494	1,541
Additions	623		623
At 31 December 2010	1,670	494	2,164
Amortisation			
At 1 January 2009	297	-	297
Charge for the year	77	-	77
At 31 December 2009	374	-	374
Charge for the year	101	-	101
At 31 December 2010	475	-	475
Carrying amount			
At 31 December 2010	1,195	494	1,689
At 31 December 2009	673	494	1,167
At 31 December 2008	213	494	707

10. Property, plant and equipment

Group	Land and buildings £'000	Office & computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
At 1 January 2009	163	250	25	438
Additions	-	20	-	20
At 31 December 2009	163	270	25	458
Currency impact	-	3	3	6
Additions	-	56	-	56
At 31 December 2010	163	329	28	520
Depreciation				
At 1 January 2009	77	179	23	279
Charge for the year	33	50	1	84
At 31 December 2009	110	229	24	363
Currency impact	-	3	1	4
Charge for the year	33	47	2	82
At 31 December 2010	143	279	27	449
Carrying Amount				
At 31 December 2010	20	50	1	71
At 31 December 2009	53	41	1	95
At 31 December 2008	85	71	2	158

11. Non-current asset investments

Company

	Unlisted Investments £'000
Cost	
At 1 January 2010 & 31 December 2010	1,623

11. Non-current asset investments (continued)

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

12. Inventories

	Group		Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Licences for resale	55	56	-	-

13. Trade and other receivables

	Group		Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Trade and other receivables*	1,161	1,164		-
Group receivables	-	-	78	-
Other current assets	-	-	4	5
Prepayments and accrued income	253	96	-	-
	1414	1,260	82	5

*Trade and other receivables includes £68,000 (2009: £nil) receivable in more than one year and have been included in non-current assets.

14. Trade and other payables

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£'000	**£'000**	**£'000**	**£'000**
Trade and other payables	352	294	5	16
Group payables	-	-	546	1,292
Deferred income	1,799	1,523	-	-
Accruals	257	108	95	12
	2,408	1,925	646	1,320

15. Share capital

	2010	**2009**
	£'000	**£'000**
Allotted, called up and fully paid		
5,665,441 Ordinary shares of 5 pence each	283	283

During 2009, 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 2010 the Group had future total commitments under non-cancellable operating leases as follows:

	2010	**2009**
	£'000	**£'000**
Commitments payable:		
Within one year	83	84
Between two and five years	203	244

17. Share options

As at 31 December 2010, 11 employees including directors (2009: 12 employees including directors) held options (granted on 3 May 2006 and 14 September 2007) over a total of 33,884 (2009: 35,884) ordinary shares at an average exercise price of 187.74p (2009: 204.44p), as follows:

Date of grant	No of shares under option at 31 December 2009	Exercised during the year	Lapsed during the year	No of shares under option at 31 December 2010	Exercise price
3 May 2006	11,884	-	-	11,884	16.15p
14 September 2007	24,000	-	(2,000)	22,000	297.5p
	35,884	-	(2,000)	33,884	

No directors exercised share options during the year. The Company's share price on 31 December 2010 was 175p.

The weighted average time to expiry of the share options outstanding at 31 December 2010 was 6.2 years (2009: 7.3 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 £2,000. (2009: £4,000). 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
Expiry date	3 May 2016	14 Sept 2017
Expected dividend yield	nil	nil
Risk-free rate of return	5%	5%

18. Employees

The average number of employees was:

	2010	**2009**
Operations	46	43
Management	4	4
Employee numbers	50	47

Their aggregate remuneration comprised:

	2010 **£'000**	**2009** **£'000**
Wages and salaries	2,093	1,799
Social security costs	234	206
Pension costs	22	29
	2,349	2,034

The aggregate remuneration includes directors' remuneration and costs totalling £457,000 (2009: £356,000) that have been capitalised in intangible assets. Further details relating to directors' remuneration are disclosed on page 16 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 Starr	1,184,811
R Howard	1,174,811

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 £72,000 (2009: £nil) and a dividend of £nil from its subsidiary company Dillistone Systems (US) Inc (2009: £309,743). At the year end Dillistone Systems (US) Inc owed the Company £70,000 (2009: £nil).

20. Related party transactions (continued)

During the current year Dillistone Systems Limited paid a dividend of £1,500,000 (2009: £285,000) to Dillistone Group Plc. The Company was recharged salary expenses by Dillistone Systems Limited of £422,000 (2009: £380,000), and was paid a management charge of £240,000 (2009: £254,000). At the year end Dillistone Systems Limited was owed £513,000 (2009: £1,225,000).

The Company received a management charge during the year from Dillistone Systems (Australia) Pty Limited of £48,000 (2009: £nil) and at the year end owed it £33,000 (2009: £59,000).

Management charges payable by Group members to Dillistone Group Plc relate to management support provided directly to them.

The directors received dividends paid by the Company of £289,000 (2009: £360,000).

21. Dividends

The dividends paid in 2010 and 2009 were £595,000 (10.5p per share) and £594,000 (10.5p per share) respectively. A final dividend in respect of the year ended 31 December 2010 of £397,000 (7p per share) will be paid on 21 June 2011. These financial statements do not reflect this dividend.

Dillistone
Group Plc

Dillistone Group plc
Third Floor
50-52 Paul Street
London EC2A 4LB

Tel: +44 (0)20 7749 6100
www.Dillistone.com