

Company Registration No. 4578125 (England and Wales)

DILLISTONE GROUP PLC
(formerly Dillistone Group Limited)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2006



DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

DIRECTORS AND ADVISERS

Directors	J McLaughlin – Executive Chairman & Finance Director J S Starr – Managing Director R Howard – Operations Director A D James – Project Director M D Love – Non Executive
Secretary	R Howard
Company number	4578125
Registered office	3rd Floor 50-52 Paul Street London EC2A 4LB
Registered auditors	Saffery Champness Beaufort House 2 Beaufort Road Clifton Bristol BS8 2AE
Principal Bankers	Barclays Bank plc 240 Whitechapel Road PO Box 14623 London E1 1SH
Solicitors	Osborne Clarke 2 Temple Back East Temple Quay Bristol BS1 6EG
Brokers & Nomad	Blue Oar Securities Plc Colston Tower Colston Street Bristol BS1 4RD
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

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DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

BUSINESS REVIEW

I am pleased to present the first annual report of the company following its admission to trading on the AIM Market of the London Stock Exchange on 15th June 2006. This report covers the year ended 31st December 2006.

Financial Performance

The financial results for the year ended 31st December 2006 show substantial growth in both turnover and profits over 2005 despite the distractions caused by the considerable workload associated with the company's admission to AIM and the relocation of the London and Sydney offices during the year.

Turnover in the year increased by 30% to £3,301,362 (*Year ended 31st December 2005 - £2,530,313*), and profits before tax increased by 44% to £923,118 (*2005 as restated under IFRS - £639,754*) despite severe weakening of both the Australian and US Dollars against the Pound. Sales and profits growth in both the UK and European markets has been particularly strong, although the UK result is slightly flattered by the completion of a contract amounting to some £80,000 which commenced prior to the year end, but was completed in February.

Operating Margins were enhanced from 25% in 2005 to 28% in 2006, reflecting the strong sales growth together with tight control over operating costs.

Cashflow has continued to reflect the profitable performance of the business, and at the end of the year we held cash balances of £538,591, compared with £515,750 at the beginning of the year. The cash balance at 31st December 2006 reflects the non-recurring pre-floatation dividend payment of £400,000 to the investors who supported the management buy out in January 2003, a further dividend of £135,000 to all shareholders following the floatation, and the capital expenditure associated with the relocation of our London headquarters of some £163,000. The Group has no borrowings whatsoever.

Earnings per share increased by 42% to 12.00p per share (*2005 - 8.46p per share*). At the time of the floatation in June, we indicated that we anticipated paying an additional dividend of some £100,000 (approximately 1.85 pence per share) following the publication of the interim results. The board decided that, in the light of the excellent results in the first half that this dividend should be increased to £135,000. We indicated at the time of the floatation that there would be no final dividend in respect of 2006, and accordingly none is proposed. I can, however confirm that we expect to pay a dividend in October 2007, following the announcement of the interim results, and a final dividend in May 2008, based on the year's outcome, and a dividend cover of some 2 times earnings.

Flootation

On 15th June 2006 the company's shares were admitted to trading on the AIM market of the London Stock Exchange. 200,000 new ordinary shares of 5p each were issued at a price of £1.25, raising £250,000 for the company. The costs of the issue amounted to £240,936, leaving the company net proceeds from the issue of £9,064. I would like to record my thanks to all our staff and professional advisers in this matter for their commitment to ensuring that the issue and admission to AIM went as smoothly as it did.

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006**

Staff

As part of the floatation process, share options were granted to all our staff through both EMI approved and unapproved share schemes. I am pleased that we were able to introduce these schemes on favourable terms for them, and I look forward to them becoming shareholders in due course. At the end of the year, our staff held options (for which they will be required to pay 16 154p per share) over 323,886 ordinary shares in the company. These options will mature in May 2009, and demonstrate the value placed on our staff, who have performed outstandingly well throughout the year.

I would also like to formally welcome both Alex James and Mike Love to the Board of the Group. Alex has been with the Group since October 1999, and is the director responsible for the implementation of new projects. Mike joined the board on 31st May 2006, as our senior non-executive director. He brings with him a wealth of relevant experience as Chairman of SciSys plc, and ClearStream plc, and he is a member of the AIM advisory panel.

Offices

In August 2006 we relocated both our London head office and our Asia-Pacific offices. The move of the London office, in particular, has enhanced the working environment.

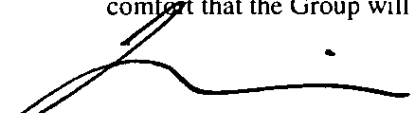
Prospects

We announced in February 2007 that the order intake in the final quarter of the year had been the highest ever recorded by the Group since its formation, and I am pleased to be able to confirm that this positive trend has continued. Order intake in January and February 2007 is some 32% ahead of the same period in 2006. The short lead time between taking an order and completing the installation, however, means that predicting the outcome for the year as a whole at this early stage is as difficult as ever.

In March 2007, we released version 8 of our "Filefinder" software. This is the first major release for 2 years, and has entailed not only significant development expenditure, but also a major effort to train our own staff for support and installation, particularly towards the latter part of 2006. Early reactions to the new software from our clients have been extremely encouraging, and I expect that reaction to reflect in sales performance during the year.

The outlook for the retained executive search market remains positive throughout the world, and the Board believes that the outcome for the year as a whole will be very satisfactory.

Looking forward, the trend for the adoption of our "Filefinder" software by large corporate clients gives comfort that the Group will continue to deliver further growth.



Jim McLaughlin
11th April, 2007

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

MANAGING DIRECTOR'S REVIEW FOR THE YEAR ENDED 31 DECEMBER 2006

Overview

The year ended December 31st 2006 was another excellent one for the Group. Globally, revenue grew by 30% to £3,301,362, with Profit before tax increasing by 44% to £923,118. This, in a 12 month period which also saw the floatation of the Group, is by far the best result since its formation. Furthermore, this headline growth figure is underpinned by record profit contributions from each of our regional businesses.

Our performance in our core "executive search" market has been good, with a total of 112 new sales to executive search firms, spread across 31 countries. Although independent market share data is hard to obtain in this sector, the management believe that the Group remains in the global market leadership position in what is a rapidly expanding niche.

In addition, our strategy of expanding beyond our core "executive search" market has shown early signs of success with sales to corporate organisations ranging from financial services groups to software houses and media organisations and we are pleased to list a number of Fortune 100 Organizations as clients.

Our performance in 2006 was the result of the skills and efforts of our superb team of staff. This means that our ability to recruit, retain and motivate our staff is key. To that end, we have – over the course of 2006 – relocated or upgraded a number of our offices and introduced, as part of the floatation process share option schemes. Furthermore, we continue to follow a policy of promoting from within when possible, and as a result of this our executive management team now have an average of 7½ years of experience within the company.

Regional Review and Key Performance Indicators

United Kingdom

Our home market saw excellent growth with revenue up 44% on the preceding year and with operating profits rising by 55%. This excellent return reflects both high levels of sales to new clients, and our ability to provide ongoing services to our existing clients. This performance was achieved despite the relocation of our head office, which took place in August of 2006, at a total cost of £163,000, funded from our earnings in the year.

Europe

Our European business also performed well, with operating profits up 41% based on a revenue increase of 23%. This was in part a reflection of the improved economic environment in the region but also reflected the growth of our market eastward – we made a number of sales into the countries in the east of the continent. Furthermore, our training and conference services were particularly well attended by delegates from these markets. I believe that emerging markets will prove to be a major driver of our European growth, and our early leadership in countries such as Bulgaria, Russia and Turkey positions us strongly for the long term.

Asia Pacific

Our Asia Pacific business, based in Sydney, produced a pleasing 33% increase in profit, up from £131,982 to £175,800. This was achieved despite a slight drop in revenues, caused by a number of operational issues which have now been resolved. The business achieved a good order intake towards the end of 2006, and therefore carries a significant order pipeline for the first quarter of 2007. Over the last 3 years, revenues and profitability in our Asia Pacific business have grown by 103%, and a significant investment is scheduled for 2007 to ensure that Asia-Pacific continues to play a significant role in our drive for growth going forward.

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

MANAGING DIRECTOR'S REVIEW FOR THE YEAR ENDED 31 DECEMBER 2006

Americas

Our US business performed well with a 30% increase in sales, despite the severe weakening of the US Dollar against the Pound. After eliminating the effect of the changes in translation rates, US sales grew by 34% on a like for like basis. This growth rate is particularly pleasing when considered against a backdrop of an increasingly price sensitive market and has been achieved in part by good performance in the Corporate sector. Despite this sales growth, our profit grew only by 21%, reflecting investments in both marketing and personnel made during the year. These investments ensure that we are in a position to take advantage of expected revenue growth in 2007 and beyond.

Customer Service

A key part of our business strategy is to provide excellent customer service. This ensures that we maximise our recurring revenues whilst also ensuring that our sales teams are able to clearly differentiate ourselves from our competitors. This is achieved in a number of ways and 2006 saw us implement a number of new strategies designed to develop our customer service offering still further. These include a range of complimentary online training courses for key users, the scheduling of a series of "user events" in key markets around the World and the implementation of a new call logging system. To the best of our knowledge, none of our direct competitors provide this level of ongoing service to their clients.

Partly as a result of this, our recurring to non-recurring revenue ratio remained constant at 39:61, despite a substantial increase in new business sales. Furthermore, our reputation for customer service also plays a key role in our new business development strategy, and in 2006 around half of our clients came about as a result of a recommendation from a satisfied client or former user.

The consistency and predictability of our recurring revenue stream enables the Group to plan its future with some degree of certainty, and invest heavily in product development, to the benefit of both itself and its extensive user base.

Product Development

During the course of 2006, our R+D team were focussed on the development of our latest Filefinder suite of software – Filefinder 8. This product, released on March 1st 2007, will strengthen our position in the market still further, and early signs are that the product has been very well received.

Principal Risks and Uncertainties

The management of the business and the execution of the Group's strategy are subject to a number of risks. Risks are reviewed by the board and appropriate processes are in place to monitor them, and if necessary mitigate their effects. The principal risks which the Group recognises are as follows:

Competition

The Group operates in a competitive market, which may exert downward pressure on prices and margins. In order to mitigate this risk, our sales teams monitor the prices and products available from our competitors, and respond as appropriate, taking into account the technical differences as well as prices and payment terms between the competitor's products and our own.

Employees

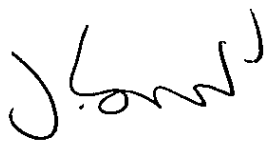
The Group's performance depends on the performance of its staff. The resignation of key individuals and the inability to recruit replacements could adversely impact the Group's results. To mitigate the likelihood of this occurring, the Group has implemented a share option scheme, with key staff carefully targeted so as to retain their services, and it also ensures that proper training is provided to all members of staff, depending on their needs.

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**MANAGING DIRECTOR'S REVIEW
FOR THE YEAR ENDED 31 DECEMBER 2006**

Currency Risk

Operating in a global economy, with offices in the UK, Europe, Australia and the US inevitably exposes the Group to currency fluctuations, both through the translation of earnings, and by holding assets in foreign currencies. The Group seeks to minimise the currency risks associated in its business, by trading wherever possible in Sterling, and by minimising the value of assets held overseas.



Jason Starr
11th April 2007

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

The directors present their report and financial statements for the year ended 31st December 2006

Principal activities and review of the business

The principal activity of the company continued to be that of a parent company. The principal activity of the Group is the sale of specialist computer software and the provision of related support services. A full review of trading and future development is presented in the Chairman's statement and Managing Director's Review.

The company re-registered as a public company on 6th June 2006.

Results and dividends

The consolidated income statement for the year is set out on page 14.

An interim dividend of £3.81 per share (based on 105,000 shares in issue at the time) was approved on 3rd May 2006 and paid on 24th May 2006. A final dividend of 2.5p per share was approved by the board on 20th September 2006 and paid on 12th October 2006.

Directors

The following directors have held office since 1st January 2006:

J McLaughlin- Chairman

J S Starr

R Howard

A D James (Appointed 14th Feb 2006) – retires by rotation

M D Love (Non Executive) Appointed 31st May 2006 – retires by rotation

The directors served throughout the year. The interests of the directors (including family interests) in the share capital of the company are listed on page 11.

A D James and R Howard, who are proposed for re-election at the forthcoming AGM, have service contracts with a 1 year notice period.

Principal shareholders

At the date of this report the directors have been notified of the following shareholdings in excess of 3% of the company's issued share capital:

	Ordinary shares of 5 pence each	Percentage
R Howard	1,222,089	23%
J S Starr	1,222,088	23%
J McLaughlin	1,047,801	19%
M Bryan	348,572	6%
G Fearnley	348,572	6%
M Hill	348,572	6%
R Howells	348,572	6%

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2006**

Charitable donations

During the year the Group made the following payments

	2006	2005
	£	£
Charitable donations	450	590

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 31st December 2006 was 42 (31st December 2005 33)

Auditors

In accordance the section 385 of the Companies Act 1985, a resolution proposing that Saffery Champness be re-appointed will be put to the Annual General Meeting

Directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985

The directors are responsible for preparing the Annual Report and the financial statements in accordance with the Companies Act 1985. The directors 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

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2006**

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

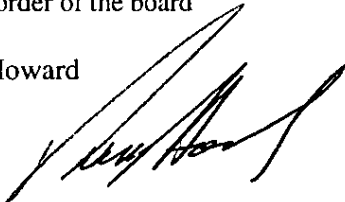
- consistently select and apply appropriate accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRSs 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.

The directors confirm that

- so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware,
- each director has taken all the steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the board

R Howard



10th April 2007

Secretary

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

Corporate governance

The directors intend, so far as possible and to the extent appropriate given the company's size and the constitution of the board, to comply with the combined code prepared by the committee on corporate governance chaired by Sir Ronald Hampel and which is appended to the listing rules of the Financial Services Authority. The board has separate roles for chairman and chief executive.

The board has established an audit committee, which comprises M D Love and J McLaughlin, and a remuneration committee which also comprises M D Love, with formally delegated responsibilities.

The audit committee meets at least twice a year and is responsible for ensuring that the financial performance of the company is properly monitored and reported. It is also responsible for appointing the auditors, ensuring the auditors' independence is not compromised, and reviewing the reports on the company from the auditors in relation to the accounts and internal control systems.

The remuneration committee is responsible for reviewing the performance of the executive directors, and for determining the scale and structure of their remuneration packages and the basis of their service contracts bearing in mind the interests of shareholders. The committee also monitors performance and approves the payment of performance related bonuses and the granting of share options.

The board has not established a nomination committee as it regards the approval and appointment of directors (whether executive or non-executive) as a matter for consideration by the whole board.

Internal control

The combined code introduced a requirement that the directors' review should be extended to cover not just internal financial controls but all controls including operations, compliance and risk management. It reports as follows:

The directors are responsible for the Group's system of internal control. Although no system of internal control can provide absolute assurance against material misstatement or loss, the company's system is designed to provide the directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately. The key procedures that have been established and which are designed to provide effective internal control are as follows:

Management structure: the board of directors meets regularly and minutes of its meetings are maintained.

Financial reporting: budgets are prepared and reviewed by executive management. Any material variances to actual results are investigated.

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2006**

Investment appraisal the company has a clearly defined framework for capital expenditure requiring approval by key personnel and the board where appropriate

The board has reviewed the effectiveness of the system of internal controls and it has considered the major business risks and the control environment. No significant control deficiencies were reported during the period.

No weaknesses in internal control have resulted in any material losses, contingencies or uncertainty which would require disclosure, as recommended by the guidance for directors on reporting on internal control.

Remuneration policy

The objective of the company's remuneration policy is to attract, motivate and retain high quality individuals who will contribute significantly to shareholder value. The remuneration committee decides on the remuneration of the directors and other senior management, which comprises a basic salary, bonus scheme, share options and medium term incentive plan. The board as a whole decide the remuneration of the non-executives.

Directors' remuneration

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

	Salary & Fees	Bonus	Pension contributions	Total
	£	£	£	£
Executive directors				
J McLaughlin	36,287	12,000	-	48,287
J S Starr	89,983	20,433	900	111,316
R Howard	81,320	18,750	720	100,790
A D James	60,000	15,000	-	75,000
Non-executive director				
M D Love	4,500	-	-	4,500
	<u>272,090</u>	<u>66,183</u>	<u>1,620</u>	<u>339,893</u>

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**REPORT TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION
FOR THE YEAR ENDED 31 DECEMBER 2006**

Share options

It is the policy of the company that key employees are granted options over the shares of the company. The company grants options under an Inland Revenue approved scheme and also under an unapproved scheme. The share options granted to the directors are as follows:

	Granted during the year	Number of shares under option at 31 December 2006	Exercise price	Date
A James	37,143	37,143	16 154	3 May 2006

Directors' Interests

The interests of the directors (including family interests) in the share capital of the company are set out below:

	At 31 December 2006	Prior to admission on 15 June 2006
J McLaughlin	1,045,712	1,114,284
J S Starr	1,220,000	1,300,000
R Howard	1,220,000	1,300,000

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS
FOR THE YEAR ENDED 31 DECEMBER 2006**

We have audited the Group and parent Company financial statements ("the financial statements") of Dillistone Group PLC for the year ended 31 December 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report are consistent with the financial statements, Chairmans' Statement and Managing Directors' Review.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the Chairman's statement, the Managing Director's review, the Directors' report, the Corporate Governance statement, and the report to the shareholders on directors' remuneration. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and company's circumstances, consistently applied and adequately disclosed.

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2006**

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2006,
- the financial statements have been properly prepared in accordance with the Companies Act 1985,
- the information given in the Directors' Report is consistent with the financial statements

Saffery Champness .

Saffery Champness

Chartered Accountants
Registered Auditors

Beaufort House
2 Beaufort Road
Clifton
Bristol
BS8 2AE

Date *2 May 2007 .*

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Note	2006 £	As restated 2005 £
Continuing activities			
Revenue	2	3,301,362	2,530,313
Cost of sales		<u>(274,481)</u>	<u>(271,171)</u>
Gross profit		3,026,881	2,259,142
Administrative expenses		(2,107,724)	(1,622,087)
Results from operating activities		<u>919,157</u>	<u>637,055</u>
Financial income	4	3,961	2,699
Profit before tax		<u>923,118</u>	<u>639,754</u>
Tax expense	5	(285,913)	(199,776)
Profit for the year attributable to equity holders of the company		<u><u>637,205</u></u>	<u><u>439,978</u></u>
 Earnings per share – from continuing activities			
Basic	6	12 00p	8 46p
Diluted	6	11 63p	8 46p

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Share capital £	Share premium £	Retained earnings £	Share option £	Foreign exchange £	Total £
Balance at 31 December 2004 - as restated	105,000	106,237	354,760	-	(5,562)	560,435
Profit for the year ended 31 December 2005 - as restated	-	-	439,978	-	-	439,978
Exchange differences on translation of overseas operations	-	-	-	-	20,384	20,384
Dividends paid	-	-	(367,500)	-	-	(367,500)
Balance at 31 December 2005 - as restated	105,000	106,237	427,238	-	14,822	653,297
Profit for the year ended 31 December 2006	-	-	637,205	-	-	637,205
Bonus issue from reserves	155,000	(106,237)	(48,763)	-	-	-
Issue of share capital	10,000	240,000	-	-	-	250,000
Costs of the issue	-	(240,000)	(936)	-	-	(240,936)
Fair value of equity settled share option expense	-	-	-	13,316	-	13,316
Exchange differences on translation of overseas operations	-	-	-	-	(21,002)	(21,002)
Dividends paid	-	-	(535,096)	-	-	(535,096)
Balance at 31 December 2006	<u>270,000</u>	<u>-</u>	<u>479,648</u>	<u>13,316</u>	<u>(6,180)</u>	<u>756,784</u>

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006**

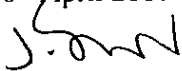
	Share capital £	Share premium £	Retained earnings £	Share option £	Total £
Balance at 31 December 2004	105,000	106,237	(446)	-	210,791
Profit for the year ended 31 December 2005	-	-	455,969	-	455,969
Dividends paid	-	-	(367,500)	-	(367,500)
Balance at 31 December 2005	<u>105,000</u>	<u>106,237</u>	<u>88,023</u>	<u>-</u>	<u>299,260</u>
Profit for the year ended 31 December 2006	-	-	585,105	-	585,105
Bonus issue from reserves	155,000	(106,237)	(48,763)	-	-
Issue of share capital	10,000	240,000	-	-	250,000
Costs of the issue	-	(240,000)	(936)	-	(240,936)
Fair value of equity settled share option expense	-	-	-	13,316	13,316
Dividends paid	-	-	(535,000)	-	(535,000)
Balance at 31 December 2006	<u>270,000</u>	<u>-</u>	<u>88,429</u>	<u>13,316</u>	<u>371,745</u>


DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**CONSOLIDATED AND COMPANY BALANCE SHEETS
AS AT 31 DECEMBER 2006**

	Notes	Group		Company	
		2006	As restated 2005	2006	As restated 2005
		£	£	£	£
ASSETS					
Non-current assets					
Intangible assets	8	630,271	616,078	-	-
Property plant and equipment	9	181,476	25,995	-	-
Investments	10	-	-	1,623,264	1,146,789
Deferred tax asset	5	-	3,055	-	-
		<u>811,747</u>	<u>645,128</u>	<u>1,623,264</u>	<u>1,146,789</u>
Current assets					
Inventories	11	21,210	32,414	-	-
Trade and other receivables	12	827,633	705,132	141,025	4
Cash and cash equivalents		538,591	515,750	9,471	93,271
		<u>1,387,434</u>	<u>1,253,296</u>	<u>150,496</u>	<u>93,275</u>
Total assets		<u><u>2,199,181</u></u>	<u><u>1,898,424</u></u>	<u><u>1,773,760</u></u>	<u><u>1,240,064</u></u>
EQUITY AND LIABILITIES					
Equity					
Share capital	14	270,000	105,000	270,000	105,000
Share premium		-	106,237	-	106,237
Retained earnings		479,648	427,238	88,429	88,023
Share option reserve	16	13,316	-	13,316	-
Translation reserve		(6,180)	14,822	-	-
Total equity		<u>756,784</u>	<u>653,297</u>	<u>371,745</u>	<u>299,260</u>
Liabilities					
Non current liabilities					
Deferred tax liability	5	8,603	-	-	-
Current liabilities					
Trade and other payables	13	1,205,219	1,015,142	1,402,015	940,804
Current tax payable	13	228,575	229,985	-	-
Total liabilities		<u>1,442,397</u>	<u>1,245,127</u>	<u>1,402,015</u>	<u>940,804</u>
Total liabilities and equity		<u><u>2,199,181</u></u>	<u><u>1,898,424</u></u>	<u><u>1,773,760</u></u>	<u><u>1,240,064</u></u>

The financial statements were approved by the board of directors and authorised for issue on 10th April 2007. They were signed on its behalf by


J S Starr - Director


J McLaughlin - Director

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)**CONSOLIDATED CASH FLOW STATEMENT
AS AT 31 DECEMBER 2006**

	2006	2006	As restated	2005
	£	£	2005	2005
			£	£
Operating activities				
Profit for the year	637,205		439,978	
Adjustment for				
Depreciation and amortisation	94,374		75,744	
Share option expense	13,316			
Loss on disposal	1,117		-	
	<hr/>		<hr/>	
Operating cash flows before movement in working capital	746,012		515,722	
(Increase) in receivables	(122,501)		(63,254)	
Decrease / (increase) in inventories	11,204		(3,230)	
Increase in payables	199,081		374,550	
	<hr/>		<hr/>	
Net cash generated from operating activities		833,796		823,788
Investing activities				
Purchases of property plant and equipment	(190,033)		(21,762)	
Investment in development costs	(73,888)		(63,285)	
	<hr/>		<hr/>	
Net cash used in investing activities		(263,921)		(85,047)
Financing activities				
Proceeds from issue of share capital	250,000		-	
Share capital issue costs	(240,936)		-	
Dividends paid	(535,096)		(367,500)	
	<hr/>		<hr/>	
Net cash used by financing activities		(526,032)		(367,500)
		<hr/>		<hr/>
Net increase in cash and cash equivalents		43,843		371,241
Cash and cash equivalents at beginning of year		515,750		124,125
Effect of foreign exchange rate changes		(21,002)		20,384
		<hr/>		<hr/>
Cash and cash equivalents at end of year		<u>538,591</u>		<u>515,750</u>

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**COMPANY CASH FLOW STATEMENT
AS AT 31 DECEMBER 2006**

	2006	2006	2005
	£	£	£
Operating activities			
Profit for the year	585,105		455,969
Adjustment for			
Fair value of share option expense	13,316		-
Dividend in specie from subsidiary	(1,623,164)		-
Write down investment in subsidiary	1,146,689		-
	<hr/>		<hr/>
Operating cash flows before movements in working capital	121,946		455,969
(Increase) in receivables	(141,021)		-
Increase in payables	461,211		2,696
	<hr/>		<hr/>
Net cash generated from operating activities		442,136	458,665
Financing activities			
Proceeds from issue of share capital	250,000		-
Share capital issue costs	(240,936)		-
Dividends paid	(535,000)		(367,500)
	<hr/>		<hr/>
Net cash used in financing activities		(525,936)	(367,500)
		<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents		(83,800)	91,165
Cash and cash equivalents at beginning of year		93,271	2,106
		<hr/>	<hr/>
Cash and cash equivalents at end of year		<u>9,471</u>	<u>93,271</u>

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

Dillistone Group Plc (the “company”) is a company incorporated in England and Wales. The financial statements are presented in Pounds sterling, and were authorised for issue by the directors on 10th April 2007.

The Group financial statements consolidate those of the company and its subsidiaries (together referred to as the “Group”). The parent company financial statements present information about the company as a separate entity and not about its Group.

Both the Group financial statements and the company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”). In publishing the company financial statements here together with the Group financial statements, the company has taken advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

Both the Group and the company are preparing their financial statements in accordance with IFRS as adopted by the EU for the first time and consequently both have applied IFRS 1 First-Time Adoption of the International Financial Reporting Standards. An explanation of how the transition to adopt IFRS has affected the reported financial position, financial performance, and cash flows of the Group and the company is provided in note 20.

IFRS 1 First-Time Adoption of International Financial Reporting Standards sets out the transition rules which must be applied when IFRS are adopted for the first time.

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.

The accounting policies set out below have, unless otherwise stated, been applied consistently by the Group to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 January 2005 for the purposes of the transition to adopted IFRS.

1.2 Basis of consolidation

The consolidated financial statements include the financial statements of Dillistone Group Plc and its subsidiaries. There are no associates or joint ventures to be considered.

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The Group uses the purchase method of accounting to account for the acquisition of subsidiaries.

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

1.3 Revenue

Revenue is recognised in the income statement as follows

- licensing income is recognised when the license has been installed and is available for use by the customer
- income from training and installation is recognised when the training or installation occurs
- support income is recognised over the period of the contract

1.4 Share based payments

The company operates two share option schemes. The fair value of the options granted under these schemes is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period at the end of which the option holder may exercise the option.

The fair value of the options granted is measured using the Black-Scholes model, adjusted to take into account sub-optimal exercise factor and other flaws in Black Scholes, and taking into account the terms and conditions upon which the incentives were granted.

1.5 Goodwill

Goodwill is determined by comparing the amount paid, including the full undiscounted value of any deferred and contingent consideration, on the acquisition of a subsidiary or associated undertaking and the group's share of the aggregate fair value of its separate net assets. Goodwill is capitalised and is subject to annual impairment reviews in accordance with applicable accounting standards.

1.6 Segment reporting

A geographical segment is a distinguishable component of the group engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

A business segment is a distinguishable component of the group that provides products or services that are different from those of other business segments.

1.7 Research and development

Research expenditure is written off to the income statement in the year in which it is incurred. Costs incurred on product development relating to the design and development of new or enhanced products are capitalised as intangible assets when it is reasonably certain that the development will provide economic benefits, considering its commercial and technological feasibility and the resources available for the completion and marketing of the development, and where the costs can be measured reliably. The expenditures capitalised are the direct labour and subcontracted costs, which are managed and controlled centrally. Product development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised product development expenditure is amortised over its useful economic life of 3 years.

Capitalised product development expenditure is subject to regular impairment reviews and is stated at cost less any accumulated impairment losses. Any impairment taken during the year is shown under amortisation on the income statement.

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

1.8 Depreciation

Property, plant and machinery are stated at cost less accumulated depreciation. Depreciation on these assets is provided at rates estimated to write off the cost, less estimated residual value, of each asset over its expected useful life as follows

Leasehold land and buildings	over the remaining lease period
Office and computer equipment	50% straight line
Fixtures, fittings & equipment	25% straight line

1.9 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 permanent diminution in value

1.10 Leasing

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

1.11 Inventory

Inventory is valued at the lower of cost and net realisable value

1.12 Trade and other receivables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts

1.13 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

1.14 Trade payables

Trade payables are stated at their nominal value

1.15 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

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

2. Segment reporting

Geographical segments

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

Revenue

	2006	2005
	£	£
UK	1,747,803	1,213,607
Europe	640,483	520,377
USA	598,807	460,499
Asia-Pacific	314,269	321,018
Africa	-	14,812
	<u>3,301,362</u>	<u>2,530,313</u>

Result

	2006	As restated 2005
	£	£
UK	352,401	227,136
Europe	496,766	352,795
USA	204,279	168,965
Asia-Pacific	175,800	131,982
Africa	-	13,677
	<u>1,229,246</u>	<u>894,555</u>
Unallocated expenses	(310,089)	(257,500)
Profit from operations	<u>919,157</u>	<u>637,055</u>

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

2. Segment reporting (continued)

Assets

	2006	As restated 2005
	£	£
UK	860,148	789,699
Europe	309,121	209,256
USA	294,350	261,323
Asia-Pacific	241,169	143,753
	<u>1,704,788</u>	<u>1,404,031</u>
Unallocated assets - goodwill	494,393	494,393
Total assets	<u>2,199,181</u>	<u>1,898,424</u>

Liabilities

	2006	2005
	£	£
UK	737,906	842,594
Europe	373,944	130,636
USA	275,339	186,840
Asia-Pacific	55,208	85,057
	<u>1,442,397</u>	<u>1,245,127</u>

Additions of non- current assets

	2006	As restated 2005
	£	£
UK	226,972	55,042
Europe	14,335	12,278
USA	14,854	11,479
Asia-Pacific	7,760	6,249
	<u>263,921</u>	<u>85,048</u>

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

2. Segment reporting (continued)

Business segment

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

Revenue	2006	2005
	£	£
Recurring income	1,287,531	977,713
Non-recurring income	2,013,831	1,552,600
	<u>3,301,362</u>	<u>2,530,313</u>

Recurring income includes all support services, and web hosting income. Non-recurring income includes sales of new licenses, and income derived from installing those licenses including training, installation, and data translation.

It is not possible to allocate assets and additions between recurring and non-recurring income.

3. Result from operating activities

	2006	2005
	£	£
Result from operating activities is stated after crediting		
Depreciation	34,887	22,499
Loss on foreign exchange transactions	(4,537)	50,128
Operating lease rentals - land and buildings	89,384	83,198
Money purchase pension contributions	17,885	13,330

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

3. Results from operating activities (continued)

	2006	2005
	£	£
Fees receivable by the group auditors		
Audit of financial statements	23,015	15,100
Other services pursuant to such legislation	2,831	-
Other services relating to taxation	3,827	2,000
Services relating to corporate finance transactions entered into by the company	77,326	-
Fees receivable by subsidiary auditors		
Audit of subsidiary financial statements	6,405	6,674
Other services relating to taxation	<u>4,898</u>	<u>5,294</u>

4. Financial income

	2006	2005
	£	£
Interest receivable	3,961	2,699
	<u>3,961</u>	<u>2,699</u>

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

5. Tax expense

	2006 £	2005 £
Current tax	274,255	200,800
Deferred tax	11,658	(1,024)
Income tax expense for the year	<u>285,913</u>	<u>199,776</u>
Factors affecting the tax charge for the year		
Profit before tax	<u>923,118</u>	<u>639,754</u>
Effective rate of taxation	30.37%	29.47%
Profit before tax multiplied by the effective rate of tax	280,351	188,536
Effects of		
Consolidation adjustments	(15,748)	11,914
Intercompany dividends	-	9,500
Non deductible expenses	12,537	36
Depreciation add back	9,676	2,740
Capital allowances	(15,210)	(4,854)
Adjustments to previous periods	2,649	(7,072)
Current tax charge	<u>274,255</u>	<u>200,800</u>

Deferred tax provided in the financial statements is as follows

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Decelerated capital allowances	<u>-</u>	<u>3,055</u>	<u>-</u>	<u>-</u>
Accelerated capital allowances	<u>8,603</u>	<u>-</u>	<u>-</u>	<u>-</u>

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

6. Earnings per share

Basic earnings per share

	2006	2005
	£	£
Profit attributable to ordinary shareholders	637,205	439,978
Weighted average number of shares	5,309,890	5,200,000
Basic earnings per share	<u>12 00 pence</u>	<u>8 46 pence</u>
Weighted average number of shares after dilution	5,481,201	5,200,000
Diluted earnings per share	<u>11 63 pence</u>	<u>8 46 pence</u>

7. Profit for the financial year

As permitted by section 230 of the Companies Act 1985, 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 £585,105 (2005 £455,969)

8 Intangible assets

Group	Development costs £	Goodwill £	Total £
Cost			
At 1 January 2006 - as restated	229,419	494,393	723,812
Additions	73,888	-	73,888
At 31 December 2006	<u>303,307</u>	<u>494,393</u>	<u>797,700</u>
Amortisation			
At 1 January 2006 - as restated	107,734	-	107,734
Charge for the year	59,695	-	59,695
At 31 December 2006	<u>167,429</u>	<u>-</u>	<u>167,429</u>
Carrying Amount			
At 31 December 2005 - as restated	<u>121,685</u>	<u>494,393</u>	<u>616,078</u>
At 31 December 2006	<u>135,878</u>	<u>494,393</u>	<u>630,271</u>

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

9. Property, plant and equipment

Group	Land and buildings	Office & computer equipment	Fixtures and fittings	Total
	£	£	£	£
Cost				
At 1 January 2006	-	123,632	21,115	144,747
Additions	163,073	28,412	-	191,485
Disposals	-	(1,653)	-	(1,653)
At 31 December 2006	<u>163,073</u>	<u>150,391</u>	<u>21,115</u>	<u>334,579</u>
Depreciation				
At 1 January 2006	-	97,637	21,115	118,752
Charge for the year	12,490	22,397	-	34,887
Eliminated on disposal	-	(536)	-	(536)
At 31 December 2006	<u>12,490</u>	<u>119,498</u>	<u>21,115</u>	<u>153,103</u>
Carrying Amount				
At 31 December 2005	-	25,995	-	25,995
At 31 December 2006	<u>150,583</u>	<u>30,893</u>	<u>-</u>	<u>181,476</u>

10. Fixed asset investments

Company

	Unlisted investments
	£
Cost	
At 1 January 2006	1,146,789
Additions	1,623,164
At 31 December 2006	<u>2,769,953</u>
Provision for impairment	
At 1 January 2006	-
Impairment of investment	1,146,689
At 31 December 2005	<u>1,146,689</u>
Carrying Amount	
At 31 December 2005	1,146,789
At 31 December 2006	<u>1,623,264</u>

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

10. Fixed asset investments (continued)

During the year, as a result of a dividend in specie from its subsidiary undertaking Custom Business Systems Limited, the company acquired the share capital of Dillistone Systems Limited, and Dillistone Systems (US) Inc. As a result of the dividend in specie the carrying value of the investment in Custom Business Systems Limited was considered to be impaired and accordingly an impairment provision of £1,146,689 was made against this investment.

The company has the following subsidiary undertakings

Name	Principal activity	Holding	Registered
Custom Business Systems Limited	Non trading	100%	England & Wales
Dillistone Systems Limited	Sale of computer software and related support services	100%	England & Wales
Dillistone Systems (Australia) Pty Limited	Sale of computer software and related support services	100%	Australia
Dillistone Systems (US) Inc	Sale of computer software and related support services	100%	USA
Dillistone Solutions Limited	Non trading	100%	England & Wales

11. Inventories

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Licences for resale	<u>21,210</u>	<u>32,414</u>	<u>-</u>	<u>-</u>

12. Trade and other receivables

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Trade and other receivables	722,286	618,056	-	-
Group receivables	-	-	97,437	-
Other current assets	19,592	22,959	43,588	4
Prepayments and accrued income	85,755	64,117	-	-
	<u>827,633</u>	<u>705,132</u>	<u>141,025</u>	<u>4</u>

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

13. Trade and other payables

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Trade and other payables	147,689	133,895	16,438	-
Group payables	-	-	1,357,094	940,804
Taxation	228,575	229,985	-	-
Deferred income	980,167	849,254	-	-
Accruals	77,363	31,993	28,483	-
	<u>1,433,794</u>	<u>1,245,127</u>	<u>1,402,015</u>	<u>940,804</u>

14. Share capital

	2006	2005
	£	£
Authorised		
105,000 Ordinary shares of £1 each		<u>105,000</u>
10,000,000 Ordinary shares of 5 pence each	<u>500,000</u>	
Allotted, called up and fully paid		
105,000 Ordinary shares of £1 each		<u>105,000</u>
5,400,000 Ordinary shares of 5 pence each	<u>270,000</u>	

On 6 June 2006 each £1 ordinary share was sub divided into 20 shares with a nominal value of 5 pence per share. At this point, the authorised share capital was also increased from £105,000 to £500,000. On 6 June 2006, 3,100,000 new ordinary shares were issued on the basis of 31 new 5p ordinary shares for every 21 shares held.

On 15 June 2006 as a result of the AIM placement, a further 200,000 ordinary 5 pence shares were issued.

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

15. Operating lease arrangements

At 31 December 2006 the Group had future total commitments under non-cancellable operating leases as follows

	2006	2005
	£	£
Commitments payable		
Within one year	49,077	-
Between two and five years	<u>114,057</u>	<u>11,742</u>

16. Share options

As at 31 December 2006, 34 employees held options, granted on 3 May 2006 over a total of 323,886 ordinary shares at an exercise price of 16 15p

No share options were exercised, or expired during the period. Details of directors' share options can be found on page 11. The company's share price on 31 December 2006 was 142p

The fair value of all options granted is shown as an employee expense with a corresponding increase in equity. The employee expense is recognised equally over the time from grant until vesting of the option. The employee expense for the year was £13,316. 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

Average share price at grant	£0 16
Average exercise price	£0 16
Expected volatility	10%
Expected life	3 years
Expected dividend yield	nil
Risk-free rate of return	5%

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

17. Employees

The average number of employees was

	2006	2005
Operations	32	31
Management	4	4
Employee numbers	<u>36</u>	<u>35</u>

Their aggregate remuneration comprised

	2006	2005
	£	£
Wages and salaries	1,078,821	829,017
Social security costs	137,222	117,976
Pension costs	17,885	16,805
	<u>1,233,928</u>	<u>963,798</u>

18. Control

The ultimate controlling parties, by way of their significant holding of shares in Dillistone Group Plc, were

	<i>Ordinary Shares</i>
J McLaughlin	1,045,712
J S Starr	1,220,000
R Howard	1,220,000

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

19. 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 £121,303 (2005 £100,000) from its subsidiary company Dillistone Systems (US) Inc. At the year end Dillistone Systems (US) Inc owed the company £97,437 (2005 £nil)

During the year the company received a management charge from its subsidiary Dillistone Systems Limited of £260,000 (2005 £nil). The company was also recharged salary expenses by Dillistone Systems Limited of £346,290 (2005 £nil). At the year end Dillistone Systems Limited was owed £1,307,101 (2005 £916,279)

Management charges payable by Group members to Dillistone Group Limited relate to sales and technical support provided directly to them, together with third party software licenses on products sold, and a contribution towards central operating and product development costs

At the year end Dillistone Systems (Australia) Pty Limited was owed £49,993 (2005 £23,770)

During the year the company paid for preliminary set up expenses for its subsidiary Dillistone Solutions Limited totalling £1,134. At the year end the company was owed this balance

During the year the Group structure was changed as detailed in note 10. The restructure was effected by Custom Business Systems Limited (a subsidiary of the company) paying a dividend in specie to the company of £1,623,164, being the market value of the Dillistone Systems Limited, Dillistone Systems (US) Inc and Dillistone Systems (Australia) Pty Limited. Custom Business Systems was dissolved on 27 February 2007

Group

In order to secure the future of Dillistone Systems (US) Inc during the period August 2004 to January 2005, Dillistone Systems (US) Inc occupied premises rented from Dillistone LLP, a US partnership in which the Shareholders of Dillistone Group Limited held a material interest. During that period the total rent payable under the rental agreement was £1,240

Dillistone Systems (US) Inc loaned US\$220,541 to Dillistone LLP during the year ended 31 December 2004 as additional support for the purchase of the property. The loan was interest free, and the loan was repaid in full in February 2005 when Dillistone Systems (US) Inc moved to alternative accommodation

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

20. Explanation of transition to IFRS

These are the Group's and the Company's first annual financial statements prepared in accordance with IFRS. The accounting policies referred to in note 1 have been applied in preparing the financial statements for the year ended 31 December 2006, the comparative information for the year ended 31 December 2005, and the preparation of an opening IFRS balance sheet at 1 January 2005, the Group's and the Company's date of transition to IFRS.

In preparing its opening IFRS balance sheet and comparative information for the year ended 31 December 2005, the Group and the Company have adjusted amounts reported previously in financial statements prepared in accordance with Accounting Standards applicable in the UK, USA, or Australia.

An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position and financial performance is set out in the following tables and notes accompanying them. There have been no changes to shareholders' equity, profit for the year or cash flow, for the parent company as a result of the transition to IFRS.

Shareholders' equity

	1 January 2005	31 December 2005
	£	£
Under local GAAP	395,576	457,452
Accumulated goodwill amortisation eliminated	49,440	74,160
Development costs capitalised	166,134	229,419
Amortisation of development costs	(52,356)	(107,734)
Other adjustments	1,641	-
Under IFRS	<u>560,435</u>	<u>653,297</u>

**Consolidated Income Statement
For the year ended 31 December 2005**

	Year ended 31 December 2005
	£
Profit after tax under local GAAP	407,351
Goodwill amortisation eliminated	24,720
Development costs capitalised	63,285
Amortisation of development costs	<u>(55,378)</u>
Profit after tax under IFRS	<u>439,978</u>

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

20 Explanation of transition to IFRS (continued)

Consolidated cashflow statement

Due to the elimination of goodwill amortisation under IFRS, the amortisation charge of £24,720 was a non-cashflow adjustment in arriving at net cash from operating activities under previous GAAP, and is no longer an adjusting item under IFRS

Under local GAAP the development costs were included in the profit for the year, whereas under IFRS these costs are presented in investing activities. Under IFRS the amortisation of these costs is a reconciling item in arriving at operating cash flows before movement in working capital

Summary of change resulting from the adoption of IFRS:

Goodwill

Under IFRS goodwill is stated at cost and subjected to annual impairment reviews. In previously reported financial statements goodwill was written off over its estimated useful economic life. The Group has restated the goodwill to the amount that arose on acquisition of Custom Business Systems on 8 January 2003

Research and development

Previously under UK accounting standards, Dillistone Systems Limited took the option not to capitalise development expenditure. Under IFRS it is necessary to capitalise development expenditure when it is probable that the development will provide economic benefits, considering its commercial and technological feasibility and resources available for the completion and marketing of the development, where the costs can be measured reliably. The Group has restated its figures to include development costs as an intangible asset

DILLISTONE GROUP PLC (formerly Dillistone Group Limited)

**NOTICE OF ANNUAL GENERAL MEETING
FOR THE YEAR ENDED 31 DECEMBER 2006**

Notice is hereby given that the General Meeting of Dillistone Group Plc will be held at 50-52 Paul Street on 12th June 2007 at 10 am for the following purposes

ORDINARY BUSINESS

- 1 To receive and adopt the report of the directors and the accounts for the financial year ended 31 December 2006 together with the independent auditors' report thereon
- 2 To receive the report to the shareholders on directors' remuneration for the year ended 31 December 2006
- 3 To re-elect Rory Howard and Alex James, who retire by rotation, as directors of the company
- 4 To re-appoint Saffery Champness as auditors of the company and to authorise the directors to fix their remuneration

**Registered office
3rd Floor
50-52 Paul Street
London
EC2A 4LB**

On behalf of the board

Jim McLaughlin, Director

NOTES

- 1 A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the company
- 2 A form of proxy is provided with this notice and instructions for its use shown on the form. To be valid, completed forms must be received at the office of the company's registrars, not less than 48 hours before the time fixed for the meeting. Deposit of the form of proxy will not prevent a member from attending the meeting and voting in person
- 3 The following documents will be available for inspection during normal business hours on any weekday (public holidays excepted) at the registered office of the company from the date of this notice until the date of the meeting, and at the meeting from 15 minutes prior to its commencement and until it ends
 - (a) copies of directors' service contracts with the company
 - (b) the register of directors' interests in the share capital of the company