Dillistone Group Plc

Company No. 4578125

INTERIM REPORT

FOR THE SIX MONTHS ENDED

30 JUNE 2009

Contents

Chairman's Statement

I said in my report for the year ended 31 December 2008 that the Group would see the impact of the recession in its 2009 results, and that has been the case. The year ended December 2008 saw a marked downturn in the second half when compared to the first half of that year. I am very pleased to be able to report that, as a result of strong recurring revenues, and in spite of a reduction in new system sales, operating profits for the 6 months ended 30 June 2009 exceeded those seen in the second half of 2008, when the full impact of the recession was first reflected in the financial performance of the Group.

Financial Performance

Revenue in the 6 months ended 30 June 2009 amounted to £1,821,940 (2008 - £2,515,902), a reduction of 28% when compared with the same period in 2008. Operating Profits for the 6 months ended 30 June 2009 were £465,655 (2008 - £931,631) and profits before tax fell to £471,461, (2008 - £948,577).

However, when compared to the second half of 2008, operating profits increased slightly from £439,770 to £465,655, despite a reduction in revenue from £2.092m in the second half of 2008 to £1.822m in the period under review. Administrative costs were reduced to £1.296m in the 6 months ended 30 June 2009, when compared to £1.465m in the first half of 2008, and £1.569m in the second half of that year.

Recurring revenues increased by 12% to £1.204m when compared to the £1.071m earned in the first half of 2008, and by 2.5% over the £1.175m earned in the second half of 2008. In the first half of 2009, recurring revenues comprised some 66% of total sales, when compared to just 43% in the first half of 2008, and 56% in the second half of 2008. There was a marked difference in performance between the UK and Asia businesses, both of which suffered reductions in sales of over 40% in total sales, and our European and USA businesses, which were much less adversely affected. To illustrate the point, the USA business recorded an increase in sales of 4% in the first half of this year as a result of recurring ASP revenues. The USA business now earns some 70% of its revenues from recurring sources.

Non recurring revenues, mainly arising from the sale of new systems, universally suffered throughout the Group as orders from both existing and new clients were more difficult to come by. However, since the start of the second half we have seen what appears to be a significant improvement in the market, and this has manifested itself in a number of valuable orders.

Regionally, the UK and Asia both suffered badly in their overall performance, with the UK recording a 95% reduction in profits, and Asia 69%, both when compared to the comparable period in 2008. Our Europe business showed a small reduction in profitability of just 7%, whilst the USA increased its profits from operations by some 13% partly as a result of a concentration in its business towards the ASP model.

Cashflow in the 6 months ended 30 June 2009 showed an outflow of some £533,000 primarily as a result of dividends paid of £396,000 and investment in new product development of £235,000 and reflects the decision to commit resources to the further development of FILEFINDER. This latter cost compares to just £38,000 in the first half of 2008. At 30 June 2009 we had cash reserves of some £1.8m and a strong balance sheet, both of which stand the Group in good stead and leave us well positioned to take advantage of any upturn.

Earnings per share amounted to 6.42p, compared with 12.30p for the corresponding period in 2008, and 6.18p per share for the second half of 2008. As announced in my annual report for 2008, the Board has decided to maintain the dividend for 2009 at the same level as was paid in respect of 2008, and accordingly, the Board has decided to pay a dividend of 3.5p per share (2008-3.5p) on 30 October 2009 to holders on the register on 9 October 2009. Shares will trade ex-dividend from 7 October 2009.

Prospects

Having established some stability in a very difficult market, it does appear from recent orders received that the Group is likely to achieve its market expectations for the year as a whole, and is well positioned to take advantage of any upturn in global economic activity. The level of recurring revenue across the Group, the cash reserves and strong balance sheet all place the Group as a leading contender to emerge well from the current recession.

Jim McLaughlin

25th September 2009

Independent Review Report

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 which comprises specifically the primary financial statements and the related explanatory notes that have been reviewed. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.
This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the London Stock Exchange Alternative Investment Market's (AIM) Rulebook for Companies. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rulebook for Companies.
As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rulebook for Companies.

Saffery Champness
Chartered Accountants

Beaufort House
2 Beaufort Road
Clifton
Bristol
BS8 2AE

25 September 2009

CONSOLIDATED INCOME STATEMENTS

	6 Months ended 30 June		*Year Ended 31 December*
	2009	***2008***	***2008***
	Unaudited	***Unaudited***	***Audited***
	£	**£**	**£**
Revenue	1,821,940	2,515,902	4,608,197
Cost of sales	(60,434)	(119,473)	(202,997)
Gross profit	1,761,506	2,396,429	4,405,200
Administrative expenses	(1,295,851)	(1,464,798)	(3,033,799)
Result from operating activities	465,655	931,631	1,371,401
Financial income	5,806	16,946	54,171
Profit before tax	471,461	948,577	1,425,572
Tax expense	(119,724)	(284,573)	(427,672)
Profit for the period/year	351,737	664,004	997,900
Earnings per share (pence)			
Basic	6.42	12.30	18.48
Diluted	6.17	11.60	17.50

CONSOLIDATED BALANCE SHEETS

	As at 30 June		*As at 31 December*
	2009	*2008*	*2008*
	Unaudited	*Unaudited*	*Audited*
ASSETS	**£**	**£**	**£**
Non-current assets			
Intangible assets	911,540	655,862	707,396
Property plant & equipment	132,222	147,877	158,443
	1,043,762	803,739	865,839
Current assets			
Inventories	31,003	21,506	50,628
Trade and other receivables	1,311,385	1,333,539	1,306,748
Cash and cash equivalents	1,795,323	2,041,885	2,352,794
	3,137,711	3,396,930	3,710,170
Total Assets	4,181,473	4,200,669	4,576,009
EQUITY AND LIABILITIES			
Equity			
Share capital	282,976	270,000	270,000
Share premium	28,947	-	-
Share option reserve	9,254	36,476	40,427
Retained earnings	1,620,667	1,489,027	1,633,923
Translation reserve	99,084	82,939	123,749
Total Equity	2,040,928	1,878,442	2,068,099
Liabilities			
Current liabilities			
Trade and other payables	2,014,617	1,982,768	2,328,489
Current tax payable	122,928	336,459	176,421
	2,137,545	2,319,227	2,504,910
Non-current liabilities			
Deferred tax liability	3,000	3,000	3,000
Total Liabilities	2,140,545	2,322,227	2,507,910
Total liabilities and equity	4,181,473	4,200,669	4,576,009

The financial statements were approved by the board of directors and authorised for issue on 25th September 2009.

They were signed on its behalf by:

J S Starr J McLaughlin

CONSOLIDATED CASH FLOW STATEMENTS

	6 Months ended 30 June		Year ended 31 December
	2009	*2008*	*2008*
	Unaudited	*Unaudited*	*Audited*
	£	*£*	*£*
Operating Activities			
Profit from operations	465,655	931,631	1,371,401
Less taxation paid	(173,217)	(248,937)	(552,074)
Adjustment for			
Depreciation	71,610	52,938	132,712
Share option expense	-	9,698	13,649
Operating cash flows before movements in working capital	364,048	745,330	965,688
Decrease / (Increase) in receivables	(4,637)	(49,349)	(22,558)
Decrease / (Increase) in inventories	19,625	(19,172)	(48,294)
(Decrease) / Increase in payables	(313,872)	134,730	480,451
Net cash generated from operating activities	65,164	811,539	1,375,287
Investing Activities			
Interest received	5,806	16,946	54,171
Purchases of property plant and equipment	(14,088)	(22,941)	(71,747)
Investment in product development	(235,445)	(38,400)	(131,579)
Net cash used in investing activities	(243,727)	(44,395)	(149,155)
Financing Activities			
Proceeds from issue of share capital	41,923	-	-
Dividends paid	(396,166)	(324,000)	(513,000)
Net cash used by financing activities	(354,243)	(324,000)	(513,000)
Net change in cash and cash equivalents	(532,806)	443,144	713,132
Cash and cash equivalents at beginning of the period	2,352,794	1,533,649	1,533,649
Effect of foreign exchange rate changes	(24,665)	65,092	106,013
Cash and cash equivalents at end of period	1,795,323	2,041,885	2,352,794

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	***Share premium***	***Share option reserve***	***Retained earnings***	***Foreign exchange***	***Total***
	£	**£**	**£**	**£**	**£**	**£**
Balance at 31 December 2007	270,000	-	26,778	1,149,023	17,736	1,463,537
Profit for the 6 months ended 30 June 2008	-	-	-	664,004	-	664,004
Share option expense	-	-	9,698	-	-	9,698
Exchange differences on translation of overseas operations	-	-	-	-	65,203	65,203
Dividends paid	-	-	-	(324,000)	-	(324,000)
Balance at 30 June 2008	270,000	-	36,476	1,489,027	82,939	1,878,442
Profit for the 6 months ended 31 December 2008	-	-	-	333,896	-	333,896
Share option expense	-	-	3,951	-	-	3,951
Exchange differences on translation of overseas operations	-	-	-	-	40,810	40,810
Dividends paid	-	-	-	(189,000)	-	(189,000)
Balance at 31 December 2008	270,000	-	40,427	1,633,923	123,749	2,068,099
Profit for the 6 months ended 30 June 2009	-	-	-	351,737	-	351,737
Issue of share capital	12,976	28,947	-	-	-	41,923
Share option release	-	-	(31,173)	31,173	-	-
Exchange differences on translation of overseas operations	-	-	-	-	(24,665)	(24,665)
Dividends paid	-	-	-	(396,166)	-	(396,166)
Balance at 30 June 2009	282,976	28,947	9,254	1,620,667	99,084	2,040,928

NOTES TO THE INTERIM REPORT

1. Basis of Preparation

The financial information for the six months ended 30 June 2009 included in this interim report comprises the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes on pages 11 - 13. This statement has been prepared in accordance with IAS 34 "Interim Financial Reporting".

This interim financial information is unaudited but has been reviewed by the auditors and their review opinion is included in this interim report. The financial information set out in this report does not constitute statutory accounts as defined by the Companies Act 2006. The comparative figures for the year ended 31 December 2008 were derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. Those accounts received an unqualified audit report which did not contain statements under sections 498(2) or (3) (accounting record or returns inadequate, accounts not agreeing with records and returns or failure to obtain necessary information and explanations) of the Companies Act 2006.

The interim financial statements have been prepared on the basis of the accounting policies set out in the December 2008 financial statements of Dillistone Group Plc.

2. Share Based Payments

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

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

3. Segment reporting

Geographical segments

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

	6 Months ended 30 June		Year ended 31 December
	2009	***2008***	***2008***
	£	***£***	***£***
UK	720,668	1,285,633	2,256,516
Europe	527,791	570,005	1,008,035
USA	423,936	407,702	832,527
Asia Pacific	149,545	252,562	511,120
	1,821,940	2,515,902	4,608,198

Business Segment

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

	6 Months ended 30 June		Year ended 31 December
	2009	***2008***	***2008***
	£	***£***	***£***
Recurring	1,203,759	1,071,388	2,245,943
Non Recurring	618,181	1,444,514	2,362,254
	1,821,940	2,515,902	4,608,197

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

Result

	6 Months ended 30 June		Year ended 31 December
	2009	***2008***	***2008***
	£	***£***	***£***
UK	22,737	456,307	523,611
Europe	408,923	440,668	729,318
USA	176,841	156,840	324,377
Asia Pacific	44,396	141,860	307,447
	652,897	1,195,675	1,884,753
Unallocated Expenses	(187,242)	(264,044)	(513,352)
Profit from Operations	465,655	931,631	1,371,401

3. Segment reporting (continued)

Total assets	*As at 30 June 2009*	*As at 30 June 2008*	*As at 31 December 2008*
	£	**£**	**£**
UK	2,595,856	2,792,493	3,438,892
Europe	716,558	539,621	338,609
US	554,072	684,360	583,553
Asia Pacific	314,987	184,195	214,955
	4,181,473	4,200,669	4,576,009

4. Dividends

A final dividend of 7p per share in respect of the year ended 31 December 2008 was paid on 9 June 2009. The total cost of this dividend was £396,166.

The Board has decided to pay an interim dividend of 3.5 pence per share (2008: 3.5p) on 30 October 2009 to holders on the register on 9 October 2009. Shares will trade ex-dividend from 7 October 2009.

5. Earnings per Share

	6 Months ended 30th June		*Year ended 31 December*
	2009	*2008*	*2008*
Basic earnings per share			
Profit attributable to ordinary shareholders	£351,737	£664,004	£997,900
Weighted average number of shares	5,480,739	5,400,000	5,400,000
Basic earnings per share (pence)	6.42	12.30	18.48
Diluted Earnings per share			
Profit attributable to ordinary shareholders	£351,737	£666,427	£997,900
Diluted weighted average number of shares	5,701,325	5,745,449	5,702,087
Diluted earnings per share (pence)	6.17	11.60	17.50

6. Related party transactions

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