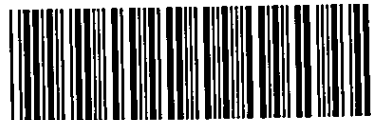


**DILLISTONE SYSTEMS LIMITED**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

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## **DILLISTONE SYSTEMS LIMITED**

### **DIRECTORS AND ADVISERS**

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<b>Directors</b>	J McLaughlin – Executive Chairman & Finance Director J S Starr – Managing Director R Howard – Operations Director A D James – Project Director A F B Milne – Technical Support Director
<b>Secretary</b>	R Howard
<b>Company number</b>	02043300
<b>Registered office</b>	3rd Floor 50-52 Paul Street London EC2A 4LB
<b>Registered auditors</b>	Saffery Champness Beaufort House 2 Beaufort Road Clifton Bristol BS8 2AE
<b>Principal Bankers</b>	Barclays Bank plc 240 Whitechapel Road PO Box 14623 London E1 1SH
<b>Solicitors</b>	Osborne Clark 2 Temple Back East Temple Quay Bristol BS1 6EG

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# **DILLISTONE SYSTEMS LIMITED**

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# **DILLISTONE SYSTEMS LIMITED**

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

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

### **Principal activities and review of the business**

The principal activity of the company is the sale of specialist computer software and the provision of related support services

### **Results and Dividends**

During the year the company achieved profits before tax of £655,779, and paid a dividend of £5 40 per share on 11 October 2006. The income statement for the year ended 31<sup>st</sup> December 2006 is set out on page 6 of these financial statements

### **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.

### **Balance sheet**

The sheet remains strong with cash of £238,684 (2005 - £189,909), and net assets of £1,038,667m (2005 - £748,648).

### **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 1<sup>st</sup> 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 company'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 company recognises are as follows:

#### *Competition*

The company 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.

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## **DILLISTONE SYSTEMS LIMITED**

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

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#### *Employees*

The company's performance depends on the performance of its staff. The resignation of key individuals and the inability to recruit replacements could adversely impact the company's results. To mitigate the likelihood of this occurring, the parent of the company 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.

#### **Directors**

The following directors have held office since 1 January 2006

J McLaughlin

J S Starr

R Howard

A D James

A F B Milne (appointed 8 December 2006)

#### **Directors' interests**

None of the directors had any interests in the share capital of the company as at 31 December 2006 or as at 31 December 2005.

The directors' interests in the shares of Dillistone Group Plc, the parent undertaking, are detailed in the Directors' Report included within that company's Annual Report.

#### **Charitable donations**

During the year the company made the following payments

	2006 £	2005 £
Charitable donations	<u>450</u>	<u>590</u>

#### **Creditor payment policy**

The company 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 51 (31st December 2005: 49).

#### **Auditors**

In accordance with 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.

## **DILLISTONE SYSTEMS LIMITED**

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

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#### **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 financial statements in accordance with the Companies Act 1985. The directors have chosen to prepare financial statements for the company in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union

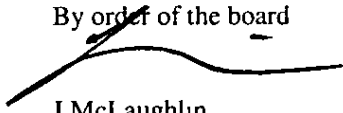
International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with 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

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

  
J McLaughlin  
Director

10 April 2007

## **DILLISTONE SYSTEMS LIMITED**

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

---

We have audited the financial statements ("the financial statements") of Dillistone Systems Ltd for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the 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 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 is consistent with the financial statements.

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.

#### **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 company's circumstances, consistently applied and adequately disclosed.

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.

# DILLISTONE SYSTEMS LIMITED

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

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### Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union of the state of the company's affairs as at 31 December 2006 and of its profit for the year ended,
- 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 SYSTEMS LIMITED****INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2006**

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	Note	2006 £	As restated 2005 £
<b>Continuing activities</b>			
<b>Revenue</b>	<b>2</b>	2,388,286	1,787,054
Cost of sales		<u>(192,520)</u>	<u>(188,147)</u>
Gross profit		2,195,766	1,598,907
Administrative expenses		(1,543,948)	(1,304,407)
Other operating income		<u>-</u>	<u>100,000</u>
Profit from operations	<b>3</b>	651,818	394,500
Investment income	<b>4</b>	-	20,993
Finance costs	<b>5</b>	3,961	2,699
<b>Profit before tax</b>		<u>655,779</u>	<u>418,192</u>
Tax expense	<b>6</b>	(199,765)	(115,281)
<b>Profit for the year</b>		<u><u>456,014</u></u>	<u><u>302,911</u></u>

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**DILLISTONE SYSTEMS LIMITED****STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2006**

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	Share capital £	Retained earnings £	Foreign exchange £	Total £
Balance at 31 December 2004 - as restated	25,000	826,837	-	851,837
Profit for the year ended 31 December 2005 - as restated	-	302,911	-	302,911
Exchange differences on translation of overseas operations	-	-	-	-
Dividends paid	-	(406,100)	-	(406,100)
Balance at 31 December 2005 - as restated	25,000	723,648	-	748,648
Profit for the year ended 31 December 2006	-	456,014	-	456,014
Exchange differences on translation of overseas operations	-	-	(30,899)	(30,899)
Dividends paid	-	(135,096)	-	(135,096)
Balance at 31 December 2006	<u>25,000</u>	<u>1,044,566</u>	<u>(30,899)</u>	<u>1,038,667</u>

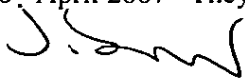
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# DILLISTONE SYSTEMS LIMITED

## BALANCE SHEET AS AT 31 DECEMBER 2006

	Note	2006 £	2005 As restated £
<b>ASSETS</b>			
Non-current assets			
Intangible assets	7	135,878	121,685
Property, plant and equipment	8	175,980	20,043
Investments	9	18,000	18,000
Deferred tax asset	6	-	3,055
		<u>329,858</u>	<u>162,783</u>
Current assets			
Inventories	10	21,210	32,414
Trade and other receivables	11	1,948,738	1,495,994
Cash and cash equivalents		238,684	189,909
		<u>2,208,632</u>	<u>1,718,317</u>
<b>Total assets</b>		<u><u>2,538,490</u></u>	<u><u>1,881,100</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	13	25,000	25,000
Retained earnings		1,044,566	723,648
Translation reserve		(30,899)	-
<b>Total equity</b>		<u>1,038,667</u>	<u>748,648</u>
<b>Liabilities</b>			
Non current liabilities			
Deferred tax liability	6	8,603	-
Current liabilities			
Trade and other payables	12	1,306,020	1,015,711
Current tax payable	12	185,200	116,741
<b>Total liabilities</b>		<u>1,499,823</u>	<u>1,132,452</u>
<b>Total liabilities and equity</b>		<u><u>2,538,490</u></u>	<u><u>1,881,100</u></u>

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

  
J S Starr - Director

  
J McLaughlin - Director

**DILLISTONE SYSTEMS LIMITED****CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2006**

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	2006	2006	As restated	
	£	£	2005	2005
			£	£
<b>Operating activities</b>				
Profit for the year	456,014		302,911	
Adjustments for				
Depreciation & amortisation	91,948		64,712	
Loss on disposal	<u>1,117</u>		<u>-</u>	
Operating cash flows before movements in working capital	549,079		367,623	
(Increase) in receivables	(452,744)		(114,575)	
Decrease / (increase) in inventories	11,204		(3,230)	
Increase in payables	<u>370,426</u>		<u>398,230</u>	
Net cash generated in operating activities		477,965		648,048
<b>Investing activities</b>				
Purchases of property plant and equipment	(189,307)		(21,538)	
Investment in development costs	<u>(73,888)</u>		<u>(63,285)</u>	
Net cash used in investing activities		(263,195)		(84,823)
<b>Financing activities</b>				
Dividends paid	<u>(135,096)</u>		<u>(406,100)</u>	
Net cash used in financing activities		(135,096)		(406,100)
Net increase in cash and cash equivalents		<u>79,674</u>		<u>157,125</u>
Cash and cash equivalents at beginning of year		189,909		32,784
Effect of foreign exchange rate changes		(30,899)		-
Cash and cash equivalents at end of year		<u><u>238,684</u></u>		<u><u>189,909</u></u>

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## **DILLISTONE SYSTEMS LIMITED**

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

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Dillistone Systems Ltd (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 10<sup>th</sup> April 2007.

The 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”).

The company is preparing its financial statements in accordance with IFRS as adopted by the EU for the first time and consequently has 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 company is provided in note 18.

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 company 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 Exemption from preparing group accounts**

The financial statements present information about the company as an individual undertaking and not about its group. The company has not prepared group accounts as it is exempt from the requirement to do so by section 228 of the Companies Act 1985 as it is a subsidiary undertaking of Dillistone Group Plc, a group incorporated in England and Wales, and is included in the consolidated accounts of that group.

##### **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

## **DILLISTONE SYSTEMS LIMITED**

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

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#### **1. Accounting policies (continued)**

##### **1.4 Segment reporting**

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

##### **1.5 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 probable 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 costs 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.

##### **1.6 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 and fittings	25% straight line

##### **1.7 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.

##### **1.8 Leasing**

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

##### **1.9 Inventory**

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

##### **1.10 Trade and other receivables**

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

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## DILLISTONE SYSTEMS LIMITED

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

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#### 1. Accounting policies (continued)

##### 1.11 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

##### 1.12 Trade payables

Trade payables are stated at their nominal value

##### 1.13 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.

#### 2. Segmental information

##### *Geographical segments*

The following table provides an analysis of the company's revenue, assets, liabilities and additions by geographic market

##### Revenue

	2006	2005
	£	£
UK	1,747,803	1,213,607
Europe	640,483	520,377
Rest of World	-	53,070
	<u>2,388,286</u>	<u>1,787,054</u>

##### Result

	2006	As restated 2005
	£	£
UK	352,401	227,137
Europe	496,766	352,795
	<u>849,167</u>	<u>579,932</u>
Unallocated expenses	(197,349)	(185,432)
Profit from operations	<u>651,818</u>	<u>394,500</u>

## DILLISTONE SYSTEMS LIMITED

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

#### 2. Segmental information (continued)

Assets	2006	As restated 2005
	£	£
UK	2,122,250	1,585,405
Europe	416,240	295,695
Total assets	<u>2,538,490</u>	<u>1,881,100</u>

Liabilities	2006	2005
	£	£
UK	1,191,227	1,015,123
Europe	308,596	117,329
	<u>1,499,823</u>	<u>1,132,452</u>

#### Additions of non-current assets

	2006	As restated 2005
	£	£
UK	241,029	65,838
Europe	22,166	18,985
	<u>263,195</u>	<u>84,823</u>

#### *Business Segment*

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

#### Revenue to external customers

	2006	2005
	£	£
Recurring income	933,561	690,518
Non-recurring income	1,454,725	1,096,536
	<u>2,388,286</u>	<u>1,787,054</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.



# DILLISTONE SYSTEMS LIMITED

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

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

### 3. Result from operating activities

	2006 £	2005 £
Operating profit is stated after charging		
Depreciation	32,253	9,334
(Profit)/loss on foreign exchange translations	(26,016)	16,210
Operating lease rentals	79,723	70,447
Money purchase pension contributions	16,265	13,330
Fees receivable by the company auditors		
Audit of financial statements	14,015	15,100
Other services relating to taxation	2,000	2,000
Directors' emoluments	<u>4,333</u>	<u>172,112</u>

### 4. Investment income

	2006 £	2005 £
Dividends received from group undertakings	<u>-</u>	<u>20,993</u>

### 5. Financial income

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

### 6. Tax expense

	2006 £	2005 £
Current tax	188,107	118,336
Deferred tax	11,658	(3,055)
Income tax expense for the year / period	<u>199,765</u>	<u>115,281</u>

# **DILLISTONE SYSTEMS LIMITED**

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

### **6. Tax expense (continued)**

	2006 £	2005 £
Profit before tax	655,779	418,192
Effective rate of taxation	30.00%	29.36%
Profit before tax multiplied by the effective rate of tax	196,734	122,781
Effects of		
Depreciation add back	9,676	2,740
Loss on disposal of fixed assets	335	-
Capital allowances	(14,722)	(4,543)
Group relief	(3,916)	-
Disallowed expenses	-	501
Adjustments to previous periods	-	(3,143)
Current tax charge	188,107	118,336
	2006 £	2005 £
Decelerated capital allowances	-	3,055
Accelerated capital allowances	8,603	-

### **7. Intangible assets**

	Development costs £
<b>Cost</b>	
At 1 January 2006	229,419
Additions	73,888
At 31 December 2006	303,307
<b>Amortisation</b>	
At 1 January 2006	
Charge for the period	107,734
At 31 December 2006	59,695
	167,429
<b>Carrying Amount</b>	
At 31 December 2005	121,685
At 31 December 2006	135,878

**DILLISTONE SYSTEMS LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2006****8. Property, plant and equipment**

	<b>Leasehold land and buildings</b>	<b>Office and computer equipment</b>	<b>Fixtures and fittings</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Cost</b>				
At 1 January 2005	-	79,503	13,157	92,660
Additions	163,073	26,234	-	189,307
Disposals	-	(1,653)	-	(1,653)
At 31 December 2006	<u>163,073</u>	<u>104,084</u>	<u>13,157</u>	<u>280,314</u>
<b>Depreciation</b>				
At 1 January 2005	-	59,460	13,157	72,617
Charge for the year	12,490	19,763	-	32,253
Eliminated on disposal	-	(536)	-	(536)
At 31 December 2006	<u>12,490</u>	<u>78,687</u>	<u>13,157</u>	<u>104,334</u>
<b>Carrying Amount</b>				
At 31 December 2005	-	20,043	-	20,043
At 31 December 2006	<u>150,583</u>	<u>25,397</u>	<u>-</u>	<u>175,980</u>

# DILLISTONE SYSTEMS LIMITED

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

### 9. Investments

	Unlisted investments £
<b>Cost</b>	
At 1 January 2006 & 31 December 2006	<u>18,000</u>

#### Holdings of more than 20%

The company holds more than 20 % of the share capital of the following company

Name	Principal activity	Holding	Registered
Dillistone Systems (Australia) Pty Limited	Sale of computer software and related support services	100%	Australia

The aggregate amount of capital and reserves and the results of this undertaking for the last relevant financial year were as follows

	Capital and reserves 2006 £	Profit for the year 2006 £
Dillistone Systems (Australia) Pty Limited	<u>353,580</u>	<u>195,546</u>

### 10. Inventories

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

**DILLISTONE SYSTEMS LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2006****11. Trade and other receivables**

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Trade receivables	568,815	495,812
Group receivables	1,321,600	921,470
Prepayments and accrued income	44,091	53,013
Other receivables	14,232	25,699
	<u>1,948,738</u>	<u>1,495,994</u>

**12. Trade and other payables**

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Trade payables	89,463	79,535
Group payables	338,399	164,432
Taxation	185,200	116,741
VAT	74,580	67,863
Deferred income	757,295	686,781
Accruals	46,283	17,100
	<u>1,491,220</u>	<u>1,132,452</u>

**13. Share capital**

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
<b>Authorised</b>		
25,000 ordinary shares of £1 each	<u>25,000</u>	<u>25,000</u>
<b>Allotted, called up and fully paid</b>		
25,000 ordinary shares of £1 each	<u>25,000</u>	<u>25,000</u>

## DILLISTONE SYSTEMS LIMITED

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

#### 14. Operating lease arrangements

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

	2006 £	2005 £
Expiry date		
Within one year	40,734	-
Between two and five years	114,056	11,742
In more than five years	-	-

#### 15. Employees

The average number of employees was

	2006	2005
Operations	31	32
Management	4	3
Employee numbers	35	35

Their aggregate remuneration comprised

	2006 £	2005 £
Wages and salaries	736,214	623,599
Directors salaries	4,333	170,492
Social security costs	108,343	103,176
Pension costs	16,265	13,330
	865,155	910,597

#### 16. Control

During the year, as a result of a dividend in specie paid from its immediate parent, Custom Business Systems Limited to its ultimate parent Dillistone Group Plc, the entire share capital of the company was transferred to Dillistone Group Plc. Dillistone Group Plc is a company registered in England and Wales.

Dillistone Group Plc prepares group financial statements, copies of which can be obtained from Third Floor, 50-52 Paul Street, London, EC2A 4LB.

The ultimate controlling parties, by way of their significant holding of shares in Dillistone Group Plc, were J McLaughlin, J S Starr and R Howard.

## DILLISTONE SYSTEMS LIMITED

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

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#### 17. Related party transactions

Dillistone Systems (Australia) Pty Limited is a wholly owned subsidiary of Dillistone Systems Ltd, who in turn is a wholly owned subsidiary of Dillistone Group Plc. Custom Business Systems Ltd and Dillistone Systems (US) Inc are all wholly owned fellow subsidiaries of Dillistone Group Plc.

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

At the year end the company owed Dillistone Systems (Australia) Pty Limited £117,157 (2005 £117,157). In 2005 the company received a management charge from Dillistone Systems (Australia) Pty Limited of £100,000. No management charge was paid in 2006.

At the year end the company owed Dillistone Systems (US) Inc £221,242 (2005 £47,249).

At the year end Custom Business Systems Limited owed the company £13,911 (2005 £4,437).

#### 18 Explanation of transition to IFRS

These are 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 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 company have adjusted amounts reported previously in financial statements prepared in accordance with Accounting Standards applicable in the UK.

An explanation of how the transition from UK GAAP to IFRS has affected the company's financial position and financial performance is set out in the following tables and notes accompanying them.

#### Shareholders' equity

	1 January 2005 £	31 December 2005 £
Under UK GAAP	738,059	626,963
Development costs capitalised	166,134	229,419
Amortisation of development costs	(52,356)	(107,734)
Under IFRS	<u>851,837</u>	<u>748,648</u>

## **DILLISTONE SYSTEMS LIMITED**

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

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#### **18. Explanation of transition to IFRS (continued)**

##### **Income Statement**

	<b>Year ended 31 December 2005 £</b>
Profit after tax under UK GAAP	295,004
Development costs capitalised	63,285
Amortisation of development costs	<u>(55,378)</u>
Profit after tax under IFRS	<u><u>302,911</u></u>

##### **Cashflow statement**

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:**

##### **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 company has restated its figures to include development costs as an intangible asset.