P

THIS DOCUMENT IS IMPORTANT. If you are in any doubt about the contents of this document, you should consult a person authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities.

This document, which is an admission document as required by the rules of the Alternative Investment Market of the London Stock Exchange ("AIM"), has been drawn up as a prospectus in accordance with the Public Offers of Securities Regulations 1995 and a copy of this document has been delivered for registration to the Registrar of Companies in England and Wales in accordance with regulation 4(2) of those Regulations.

Application has been made for the whole of the ordinary share capital of Stilo International plc ("the Company"), issued and to be issued immediately following the Placing, to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk than that associated with established companies tends to be attached. A prospective investor should be aware of the potential risks in investing in such companies and should make the decision to invest only after careful consideration and consultation with his or her own independent financial adviser. It is expected that dealings in the Ordinary Shares will commence on AIM on 30 August 2000.

The rules of AIM are less demanding than those of the Official List of the London Stock Exchange. It is emphasised that no application is being made for admission of these securities to the Official List of the London Stock Exchange. Further, the London Stock Exchange has not itself approved the contents of this document.

Stilo International plc

(Incorporated in England and Wales under the Companies Act 1985)
(Registered No. 3893693)

Placing

of 18,000,000 Ordinary Shares of 10p each
at a price of 50p per share and

Admission to trading on the Alternative Investment Market

Nominated Adviser

ARM Corporate Finance Limited

Nominated Broker

Teather & Greenwood Limited

Share capital immediately following Admission

Authorised			*Issued and fully paid*	
Number	*Amount*		*Number*	*Amount*
54,000,000	£5,400,000	Ordinary Shares of 10p each	42,000,000	£4,200,000

The new Ordinary Shares to be issued in connection with the Placing will, on Admission, rank pari passu in all respects with the Ordinary Shares in issue and will rank in full for all dividends and other distributions thereafter declared, made, or paid on the ordinary share capital of the Company.

To the best of the knowledge and belief of the directors of the Company, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and there is no omission likely to affect the import of such information. The directors, whose names are set out on page 8 of this document, accept responsibility accordingly.

ARM Corporate Finance Limited and Teather & Greenwood Limited, which are regulated by The Securities and Futures Authority Limited, are acting for the Company and no one else in connection with the Placing and the admission of the Company's Ordinary Shares to trading on AIM. Accordingly, neither will be responsible to anyone other than the Company for providing the protections afforded to their own clients nor for providing advice in connection with the Placing or the admission of the Company's Ordinary Shares to trading on AIM. No representation, express or implied, is made by ARM Corporate Finance Limited or by Teather & Greenwood Limited as to any of the contents of this document (without limiting the statutory rights of any person to whom this document is issued).

CONTENTS

DEFINITIONS

The following definitions apply throughout this document unless the context otherwise requires:

Act	the Companies Act 1985, as amended
Admission	admission of the issued Ordinary Shares and the Placing Shares to trading on AIM in accordance with the AIM Rules
AIM	the Alternative Investment Market of the London Stock Exchange
AIM Rules	as set out in Chapter 16 of the Rules of the London Stock Exchange
Approved Share Option Scheme	the Company's proposed approved share option scheme, details of which are set out in paragraph 5 of Part IV of this document
ARMCF	ARM Corporate Finance Limited, the Company's nominated adviser, which is regulated by The Securities and Futures Authority Limited
BASDA	Business and Accounting Software Developers Association
Combined Code	The Combined Code principles of good governance and code of best practice prepared by the Committee on Corporate Governance, chaired by Sir Ronald Hampel, published in June 1998 and from the Cadbury and Greenbury Reports
the Company or Stilo	Stilo International plc and/or its subsidiary
DERA	Defence Evaluation & Research Agency
Directors or Board	the board of directors of the Company
EMI Share Option Scheme	the Company's proposed Enterprise Management Incentive Share Option Scheme, details of which are set out in paragraph 5 of Part IV of this document
Executive Directors	the Board, excluding Professor R. Pike and Mr. B. Welck
Issue Price	50p per Placing Share
London Stock Exchange	London Stock Exchange plc
Non-executive Directors	Professor R. Pike and Mr. B. Welck
Ordinary Shares	ordinary shares of 10p each in the capital of the Company
Placing	the placing of the Placing Shares by Teather & Greenwood at the Issue Price, as described in this document
Placing Agreement	the agreement relating to the Placing, details of which are set out in paragraph 6 of Part IV of this document
Placing Shares	the 18,000,000 Ordinary Shares which are the subject of the Placing
POS Regulations	the Public Offers of Securities Regulations 1995 (as amended)
Teather & Greenwood	Teather & Greenwood Limited, the Company's nominated broker, which is regulated by the Securities and Futures Authority and is a Member of the London Stock Exchange
UK or United Kingdom	the United Kingdom of Great Britain and Northern Ireland
Unapproved Share Option Scheme	the Company's proposed unapproved share option scheme, details of which are set out in paragraph 5 of Part IV of this document

GLOSSARY OF TERMS

Authoring	The process of creating and editing data, documents and messages
B2B	Business to Business
B2C	Business to Consumer
BizTalk	BizTalk is an industry initiative started by Microsoft. It is a community of standards users, with the intention of encouraging the rapid, consistent adoption of XML to enable electronic commerce and application integration
Browser	Software for viewing web pages (e.g. Microsoft Internet Explorer)
DTD	Document Type Definition, a formal description of the structure of a document that may also provide some content information. DTDs effectively describe XML file formats, providing the vocabulary and allowable structure of the elements in an XML document.
EAI	Enterprise Application Integration – the process of linking together the different software applications used within an organisation
ESPRIT	An integrated programme of industrial Research and development projects and technology take-up measures managed by the European Commission
Freeware	Free software
GovTalk	UK government initiative to interconnect government departments
HTML	Hypertext Mark-up Language, the current language used to create web pages
HTTP	Hypertext Transport Protocol, a protocol used on the Internet by web browsers to transport text and graphics
MathML	Mathematical Mark-up Language, a derivative language of XML
Mark-up	Information describing the content of a document. Declarations, tags, processing instructions, and comments are all mark-up
m-commerce	Electronic commerce via mobile phones
OEM	Original Equipment Manufacturer
Parser	A tool used to convert a stream of XML information into a set of structures that an application can use
Run-time environment	An information technology system which is fully operational
Schema	A set of rules describing a document structure. XML version 1.0 Document Type Definitions are one type of schema

SGML	Standard Generalised Mark-up Language, the 'parent' language to HTML and XML, defined in the standard ISO8879
W3C	World Wide Web Consortium, supported by major organisations such as Microsoft, Oracle, IBM etc., which sets the standards for XML, HTML, HTTP and other Web-oriented standards
Well-formed	An XML document is 'well-formed' when it conforms to the rules of the XML standard
WAP	Wireless Application Protocol, enables access of the Internet through mobile telephony
XDR	XML Data Reduced, the schema language used in the BizTalk initiative and by the Inland Revenue online Self Assessment application
XML	eXtensible Mark-up Language, a mark-up language defined by the W3C that provides a strict set of standards for document syntax while allowing developers, organizations, and communities to define their own 'vocabularies'

KEY INFORMATION

The following information is derived from, and should be read in conjunction with, the full text of this document.

Background

- XML, a new common language for e-commerce, data exchange and document publishing on the Internet, has been developed under the auspices of the W3C. XML is one of the most significant developments in IT today and is expected to underpin the majority of future Internet-based document distribution and e-commerce based developments.

- Stilo develops and sells proprietary software authoring tools which enable organisations to create their e-commerce systems exploiting the capabilities of XML.

- The Directors believe that Stilo is one of a limited number of UK based companies currently developing and selling XML authoring tools.

- Members of the Stilo executive team have been actively involved in the development of XML and its standards.

- Microsoft, which is actively encouraging the application of XML, promotes Stilo and its products through its BizTalk website and participates in Stilo's corporate training programmes.

- Stilo has recently announced its collaboration with Sun Microsystems to provide XML development solutions, including XMLDeveloper, for Solaris Operating system users. This will extend the range of operating systems that the Company's products work on and create an even wider potential user base. The Company's products also operate on Microsoft platforms.

- The Company and its products have already been integrally involved in the introduction of the Inland Revenue's new online tax return system and has undertaken projects within DERA.

Use of Proceeds

- Stilo intends to raise approximately £8.5 million, net of expenses, through the placing of 18 million shares at a price of 50p per share.

- The Directors want to take advantage of the Company's position in a new and rapidly developing market. The funds raised will be used to establish sales, training and consultancy operations in the UK, USA and Germany, by means of organic growth or possible acquisition and to appoint distributors in all other major countries.

- Stilo intends to sell and market its range of products globally via direct sales, distributors, OEM partnerships and over the Internet.

- The Directors believe that flotation on AIM will enhance the Company's profile and enable it to attract the high quality personnel it requires.

PLACING STATISTICS

Issue Price	50p
Number of Ordinary Shares in issue following the Placing	42 million
Market capitalisation following the Placing at the Issue Price	£21 million
Placing Shares as a percentage of the enlarged issued share capital	42.86 per cent
Proceeds of the Placing to be received by the Company, net of expenses	£8.5 million

EXPECTED TIMETABLE

Dealings in the Ordinary Shares on AIM expected to commence	30 August 2000
CREST accounts credited with Placing Shares	30 August 2000
Definitive share certificates despatched by	6 September August 2000

DIRECTORS, SECRETARY AND ADVISERS

Directors	Professor Edward Roy Pike BSc PhD CPhys FinstP FIMA FKC FRS *Non-Executive Chairman* Leslie Burnham BSc *Chief Executive Officer* Martin Sawtell Pike BSc *Managing Director* Stephen John Buswell MA (Oxon) *Chief Technology Officer* Stephen Charles Healey BSc *IT Systems and Administration Director* Barry Harvey Welck *Non- executive Director* all of : Empire House Mount Stuart Square Cardiff CF10 6DN
Company secretary and registered office	Russell Jenkins, LLB, FCA Victoria House 250 Cowbridge Road East Cardiff CF5 1GZ
Nominated Adviser	ARM Corporate Finance Limited 12 Pepper Street London E14 9RP
Nominated Broker	Teather & Greenwood Limited Beaufort House 15 St Botolph Street London EC3A 7QR
Reporting Accountants and Auditors	HLB Kidsons Spectrum House 20-26 Cursitor Street London EC4A 1HY
Solicitors to the Company	Howard Kennedy 19 Cavendish Square London W1A 2AW
Solicitors to the Placing	Olswang 90 Long Acre London WC2E 9TT
Bankers	National Westminster Bank plc Roath Cardiff CF2 3XT
Registrars	Moorgate Registrars PLC Dukesmead House 39 High Street Chelmsford Essex CM1 1DE

Part I

INFORMATION ON STILO

Introduction

Stilo develops and sells proprietary software authoring tools which enable the creation of e-commerce systems exploiting XML, the new language of the Web. Stilo also provides XML training and consultancy services to assist businesses in the application of XML within their systems.

Created just over two years ago, XML is supported by the W3C (which includes the major organisations behind the development of the Web, such as Microsoft, Oracle and IBM).

XML is rapidly emerging as the standard language for e-commerce and data exchange across the Internet and is one of the most significant developments in IT today. It is expected to underpin the majority of future Internet-based e-commerce developments, by enabling the automatic exchange of e-business data between applications, enterprises, business partners, customers and suppliers.

Stilo's executive team includes two directors who have been actively involved in the development of XML and associated standards. Martin Pike, was a member of the W3C Special Interest Group which participated in establishing the XML standard and Stephen Buswell, is the co-author of the MathML standard, an XML application. In the UK, representatives of Stilo sit on electronic commerce working parties for BASDA and the Inland Revenue.

Stilo has undertaken XML-related consultancy projects on behalf of the Inland Revenue, DERA and the European Commission.

The Company's current range of products includes;

> **Stilo WebWriter**, the Company's initial product was launched in October 1999. WebWriter is, in effect, a word processor for the next generation of Internet and Intranet based documents, enabling users to create and edit documents encoded in XML.
>
> **Stilo XMLDeveloper**, introduced in February 2000, is an XML message creation, validation and testing tool aimed at developers of e-commerce applications. XMLDeveloper is one of the first tools of its type in the market.
>
> **Stilo MathWriter** is due to be launched towards the end of this year and is a mathematics equation editor. It facilitates the presentation and communication of maths across the Internet.

Stilo's products are now being sold to many major international groups undertaking evaluation of XML products for future implementation.

The Company has received significant support from Microsoft which is actively encouraging the implementation of XML. Microsoft has promoted Stilo, its products and expertise through the Microsoft BizTalk web site, its MSDN (Microsoft Developers Network) web site and actively participates in Stilo's corporate training programmes.

Stilo intends to expand the Company rapidly in the UK, in Europe and in the USA. £9 million (before expenses) is being raised by way of the Placing in order to establish its presence in these markets. This will be undertaken both organically and where appropriate, by acquisition.

History of Stilo

Stilo's origins date back to 1992 when Martin Pike, Stephen Buswell and Stephen Healey, all of whom previously worked at Logica, formed a consultancy partnership, together with Roy Pike, under the name of Stilo Associates. The goal of the partnership was to develop and market an editor to produce documents marked up in SGML, a language first introduced in 1986 from which XML was derived.

In October 1995, Stilo Technology Limited, the Company's wholly owned subsidiary, was incorporated to continue the development of the editing tool and to offer consultancy services to the SGML publishing industry. As XML began to be developed, the Company directed its efforts to that new language. In June 1999 an investment of £600,000 was made by 3i plc.

This seed capital enabled Stilo Technology Limited to make initial investments in sales, marketing and development personnel and in October 1999, following almost 20 man-years of development effort, the Company's first product, Stilo WebWriter, was launched. This was followed by XML Developer in February 2000 and MathWriter is scheduled to be released at the end of this year.

Initial customers have been drawn from a wide range of market sectors. They include Volkswagen of America, IBM, Ford, US Government Printing Office, Andersen Consulting, CSC, EDS, Brompton Hospital, Copenhagen Business School and The Royal Institute for the Blind, amongst many others.

XML – The new language of Internet e-commerce and data exchange

The World Wide Web has grown at an explosive rate since the mid-1990's when the concept of a hypertext mark-up language (HTML) came together with a readily available browser for viewing documents created with this language. The combination of these software applications provided an efficient and readily available means to distribute documents electronically around the globe. The ubiquity of the medium soon made the Web attractive to business application developers.

As the Internet began to be applied to business transactions, web content providers started to experience the limitations of the medium. To address the requirements of commercial web applications the organisation that promotes and develops protocols for the Web, the W3C, has developed XML, an eXtensible Mark-up Language. In assessing the significance of XML, it is important to appreciate the limitations of HMTL which only addresses the presentation of data on the Web. HMTL is therefore limited to the formatting of information for Web publishing.

In contrast, XML provides a mechanism for dealing not just with the display of information as Web pages or on mobile communications devices, but also provides a flexible framework for representing the structured data associated with databases and applications systems. It thereby enables the efficient exchange of data over the Internet which is contained in the fundamental documents required for e-commerce such as: purchase orders; supplier invoices; e-catalogues; guides; on-line shopping orders; corporate intranet information, personal tax returns.

The demand for world-wide e-commerce is driving the implementation of XML which is expected to become the standard for e-commerce and data exchange.

The market for Stilo's XML authoring tools

As a consequence of the explosion in B2B e-commerce, the vast majority of software development organisations will need to build up their XML programming expertise rapidly over the next few years and provide appropriate tools and training for their staff. Such organisations include software applications developers seeking to 'e-commerce enable' existing applications, systems integrators implementing new e-commerce applications and the IT departments of corporations integrating enterprise applications using the Internet. These organisations constitute Stilo's primary market focus.

As new applications are developed in XML, users will require software tools to help in the creation and validation of XML documents for publication on the Web and for use during the development and run-time testing stages of new e-commerce systems. Stilo has therefore developed software tools to address the following XML applications:

XML Document Creation and Editing

XML Documents may be published on the Web or other media formats, including interactive TV and mobile communications devices. Publications will include:

- product catalogues in e-commerce applications;
- technical manuals in the automotive, aerospace and defence industries;

- journals in the Scientific, Technical and Academic sectors; and
- B2C information, e.g. restaurant guides and on-line shopping.

To create these documents XML authoring tools are used in a similar way to word-processors, generating information for publishing Internet-based documents or forms. Potential end users of such tools are many and varied including webmasters, technical writers, web authors, paper publishers and content providers, in addition to those involved in rapidly emerging e-commerce start-ups.

XML Message Testing

As new e-commerce applications are developed, documents such as orders and invoices, are being created in XML for the transmission and receipt between computers over the Internet, for:

- Business to Business applications; and
- Enterprise Applications Integration (EAI)

To develop these applications, IT professionals use tools to create and validate XML messages. These are used in system testing and in the final operational system itself. With the release of Stilo XMLDeveloper, the Directors intend to establish the Company as a market leader in the provision of XML message testing tools to developers of B2B e-commerce applications.

Stilo's products and services

Stilo's current products are aimed at volume markets and they are all available over the Web in the form of software downloads:

Stilo *WebWriter*

Stilo WebWriter has been designed to provide users with a package that is quick and easy to use with no pre-configuration. The user need know almost nothing about the XML language, bringing a significant timesaving in document production. WebWriter's 'word-processor' look and feel and simple 'forms data entry' provides the user with an efficient, yet familiar-looking, way of building a structured document.

The built-in document structure viewer/navigator which results in quick and accurate editing is an unusual feature of this package.

The software has been designed to build automatically a DTD, when none exists, to fit the structure of a 'well-formed' document. It uses the newly built DTD to guide the user through the editing process, as if it existed when the document was created.

Webwriter is currently priced at £200 per copy.

Stilo *XMLDeveloper*

Stilo's present flagship product, Stilo XMLDeveloper, is an XML message creation and validation tool used in the design and testing of e-commerce applications. It uses the recently created XDR schema standard for specifying the way in which data and information is structured and validated.

Stilo is an early adopter of schemas in XML software. Schemas have emerged from the need of e-commerce applications on the Web to know more about the structure and type of data in a message than can be described in DTDs, the original mechanism for structure definition in XML.

The Directors are confident that, with the launch of Stilo XMLDeveloper, Stilo is at the forefront of e-commerce system development testing, able to support new e-commerce initiatives, including Microsoft BizTalk and UK GovTalk.

The XMLDeveloper package is currently priced at £280 per copy.

Stilo *MathWriter*

Stilo MathWriter is a mathematics equation editor, born out of a joint research project, which Stilo is undertaking as part of the ESPRIT research programme of the EU to develop the technology allowing mathematics to be displayed in a meaningful way in modern multimedia computing environments.

MathWriter enables authors of mathematical equations to create MathML (an XML derivative) using familiar mathematical notation. Stilo's R&D Director, Stephen Buswell, is the co-author of the W3C MathML standard and is an acknowledged expert in this particular field.

Professional, Consultancy and Training Services

Stilo offers training workshops to customers aimed at helping them embark upon XML based e-commerce strategies. The Company has provided training support to BASDA members and provided consultancy services to DERA and the ESPRIT programme of the EU.

It is Stilo's intention that it will be regarded by IT developers in the UK as the principal source of XML training and consultancy expertise.

Involvement in industry standards bodies

Stilo has been actively involved, on both a UK and worldwide basis, in the development of XML standards through Martin Pike's membership of the W3C Special Interest Group, which was responsible for the development of the initial XML 1.0 standard and Stephen Buswell's co-authorship of the MathML standard, a derivative of XML, as well as his involvement on e-commerce working parties for BASDA and the Inland Revenue.

Competition

The Directors believe that Stilo is one of a limited number of UK based companies currently developing and selling XML editing tools. The Company's products face competition in world markets from four main areas:

Freeware

There are many freeware products available over the Internet. However, most are low level components (e.g. parsers) for application development. Other tools may appear on first impression to be competitive with Stilo's products, but are, on analysis, found to be basic in their functionality.

New technology start-ups

New technology start-ups offer various XML productivity tools, for example, XML Spy has been developed in Austria and provides basic editing and validation capabilities and is considered to be a competitor of the Company.

XML Authority, developed in the US, has gained early ground as a schema editor. It has recently developed and provided a module for basic editing and is considered to be a competitor of the Company.

Established vendors of SGML/HTML authoring tools

Established XML authoring tools include Softquad's XMetaL and Arbortext's Adept Editor Lite. These products have been developed to address the needs of document authors and are based upon DTD's, not schemas. It is likely that they will move over to schema support at some point in the future and would then compete with Stilo XMLDeveloper. They are currently competitors with Stilo WebWriter.

Major technology vendors

Major technology vendors, including Microsoft and Oracle, could enter the market with products as demand increases.

Stilo MathWriter is aimed at a niche market. However there are other applications capable of generating MathML. These tend to be sophisticated algebraic engines, costing many hundreds of dollars. The Directors are aware of only one direct competitor with similar function to MathWriter.

Marketing and sales

To take advantage of the Company's early stage involvement with XML in a new and rapidly growing worldwide market. Stilo intends to establish a global sales and marketing capability as soon as possible. The Company plans to:

- *establish direct and third-party sales channels in the UK, USA and Germany;*

  In the UK, the Company will use advertising, direct mailing, telesales, project sales and resellers to reach its target customers which comprise corporate IT departments, software application developers and systems integrators. In the USA and Germany sales offices will be established to support a similar sales strategy.

- *appoint value added distributors in other major international territories;*

  Stilo appointed its first international distributor, for the Benelux countries, in February. Additional distributors, able to provide sales, training, consultancy and support for other areas will be appointed.

- *create OEM partnerships;*

  The Company will commence discussions with XML database vendors to integrate its software as a component part of OEM packages.

- *form further strategic alliances with leading technology vendors;*

  Stilo is already involved closely with Microsoft in joint marketing activities and with eXcelon Corporation in integrating technology and sharing marketing leads.

- *build Internet marketing and sales.*

  The Company's web site already attracts about 7,000 visitors per month. XMLDeveloper and WebWriter can be purchased over the Web already.

  Stilo has click throughs on a number of key partnership sites which provide links to Stilo's own web site, including (as of the date of this document) the Microsoft Developers Network and BASDA.

Future product development

Stilo will continue to develop its software packages in the volume products sector for content authoring and XML message testing and this development work will be complemented by the creation of high value applications for enterprise environments.

XMLDeveloper is the Companys' first tool in a planned suite. It is intended that this suite will comprise tools to develop XML messages, schemas and other XML structures in an efficient and speedy manner. Tools will also be provided for the development and generation of run-time system components. The capabilities of XMLDeveloper can also be extended to incorporate the functionality required by developers of WAP-based applications in the rapidly expanding market for m-commerce.

WebWriter will continue to be enhanced as a tool for the creation of XML documents. Features will be developed in line with the advancements that will be made in 'e-content' data-preparation, editing and managing data for electronic catalogues and other e-commerce applications.

Financial record

The table below, which has been extracted from the Accountants' Report on the Company prepared by HLB Kidsons, Chartered Accountants, which is set out in Part II(b) on page 21 of this document, summarises the financial records for the twelve month periods ended 31 July 1997 and 1998 and the 17 month period to 31st December 1999.

	Year ended 31 July 1997 (unaudited) £'000	Year ended 31 July 1998 (unaudited) £'000	17 months ended 31 December 1999 (audited) £'000
Turnover	60	47	99
Operating Loss	(8)	(6)	(287)
Interest receivable (net)	—	—	5
Loss before and after taxation	(8)	(6)	(281)

Current trading and prospects

The majority of turnover generated by Stilo in the past has come from consultancy projects with DERA, the EU and the Inland Revenue. The Company has now positioned itself to produce most of its turnover from sales of product.

Since the end of the year, Stilo has launched its flagship product, Stilo XMLDeveloper while Stilo MathWriter is due to be launched at the end of the year. The Company expects sales of all its products to increase substantially as the world-wide demand for XML authoring tools gathers pace.

In April, the Company supplied EDS with a multi-user licence for XMLDeveloper to substantially speed up the XML message testing process for the Inland Revenue's new Internet filing service for self assessment returns. This is believed to be the first UK government project implementing XML-based technology. Stilo was also part of the BASDA working party that defined the XML schema for the self assessment system.

In July, the Company announced its collaboration with Sun Microsystems to provide XML development solutions, including XMLDeveloper, for Solaris Operating system users. This will extend the operating systems that the Company's products work on and create a wider potential user base. The Company's products also operate on Microsoft platforms.

The Directors believe there is a significant opportunity to exploit the Company's position as a provider of XML tools. Stilo intends to establish marketing organisations in the USA and Germany while enhancing the existing product development and marketing activities in the UK.

Dividend policy

It is the intention of the Directors to expand the Company as quickly as possible. Any cash generated by operations is expected to be reinvested in the growth of the business. Dividends are therefore not expected to be paid during the initial development years.

Directors

The Board currently consists of six directors. A brief biography of each director is set out below:

Professor Roy Pike *(aged 70) – Non-Executive Chairman*

Roy Pike is the Clerk-Maxwell Professor of Theoretical Physics at King's College, London University. He is a Fellow of the Royal Society, the Institute of Physics, the Institute of Mathematics, and of the Optical Society of America. He was chief scientific officer of DERA from 1984 to 1990. He is a past vice-president of the Institute of Physics and was previously chairman of the Institute of Physics Publishing Company Limited from 1982 to 1986. He has also been a non-executive director of Richard Clay plc and a member of the Advisory Council of the British Library.

Leslie Burnham *(aged 46) – Chief Executive Officer*

Les Burnham graduated from Leeds University in 1975, where he obtained a Joint Honours Degree in Mathematics/Operational Research. Following an initial spell in corporate planning at Mobil Oil, he has spent his entire career in the IT industry, holding a variety of sales and executive management positions within ICL, Prime Computer and Research Machines. He has managed national sales and technical support teams and been responsible for the achievement of annual sales in excess of £40 million. Experience includes the development of international sales channels for software products in new technology markets and the establishment of his own company; re-publishing, marketing and distributing software throughout Europe on behalf of US-based partners. He joined Stilo in 1999 as Sales and Marketing Director.

Martin Pike *(aged 42) – Managing Director*

Martin Pike has been involved in the development of software since graduating with a degree in Biology and Physics from King's College, London in 1980. Between 1980 and 1987 he was based in the Netherlands, working for the software house Logica. He was involved in the development of large-scale real-time management systems, mainly in the field of oil and gas network command and control which were deployed around the world. He had responsibilities ranging from programming, on-site installation to project leadership. In 1987 he moved to Logica Belgium, based in Brussels. Here he also became involved with building financial systems, working on funds transfer and information management systems at technical managerial level, with teams of up to 40 people. He left Logica in 1992 returning to the UK to form Stilo Associates.

Stephen Buswell *(aged 43) – Chief Technology Officer*

Stephen Buswell has been in the software industry since graduating in 1979 from Oxford University from where he was awarded an MA in Mathematics. From 1979 until 1988 he worked for Logica in the UK, Holland and Belgium. Initially he concentrated on telecommunications and networking projects, then later managed a project developing control software for life sciences experiments on board Spacelab. From 1989 until 1992 he was head of Network Systems development at European Payment Systems Services, the technical arm of the Eurocard credit card company. He was then, as an independent consultant, technical advisor to the Polish Ministry of Finance working on the implementation of VAT and personal income tax systems in 1992-1993. He returned to the UK in 1992 to form Stilo Associates.

Stephen Healey *(aged 42) – IT Systems and Administration Director*

Stephen Healey graduated in 1980 with an honours degree in Computer Science from Manchester University. He worked for Hawker Siddeley designing and setting to work propulsion control systems for North Sea oil rig supply ships, before joining the US operation of Logica in 1988 where he worked on a number of projects including international funds transfer systems. In 1992 he returned to the UK to form Stilo Associates.

Barry Welck *(aged 51) – Non-executive Director*

Barry Welck was appointed a director in 1998. He is chairman of ServicePower Technologies PLC, a company quoted on the London Stock Exchange. From 1989 to 1993 he was chairman and chief executive officer of SPC International Limited, which specialised in electrical equipment. From 1993 to 1996 he was an executive director of Widney PLC, a UK engineering company. He invests in early stage technology companies.

New Appointments

The process of selecting and appointing a Finance Director is well advanced. The successful applicant will be experienced in the financial control and administration of a publicly traded company.

The Directors also intend to appoint a further independent non-executive director, and the identification of a suitable candidate is underway.

Share Option Schemes

The continued success of the Company requires the attraction, motivation and retention of key employees of a high calibre. In order to reward key employees and to reflect the Company's new status as a public company whose shares are traded on AIM, the Company has adopted the Approved, Unapproved and Enterprise Management Incentive Share Option Schemes, details of which are set out in paragraph 5 of Part IV of this document.

Corporate Governance

The Directors intend to comply, as far as is practicable for a company at its stage of development, with the recommendations of best practice as set in the Combined Code and in this connection the Board has taken into account the guidance issued by the City Group for Smaller Companies.

The Directors intend to hold board meetings regularly throughout the year. The Board will be responsible for formulating, reviewing and approving the Company's strategy, budgets, acquisitions, capital expenditure and senior personnel appointments. The Executive Directors and senior management will meet regularly to consider operational matters.

An audit committee, nomination committee and remuneration committee (all consisting of Non-executive Directors) have been established.

The audit committee will meet at least twice a year and will be responsible for ensuring that the financial performance, position and prospects of the Company are properly monitored, controlled and reported on and for meeting the auditors and reviewing their reports relating to accounts and internal controls. The Nomination Committee considers Board appointments; reviews Board structure, size and composition; recommends the continuation (or not) in service of executive directors as executive or non-executive directors; and recommends directors who are retiring by rotation to be put forward for re-election. The remuneration committee will review the performance of executive directors and set the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of shareholders. The remuneration committee will also determine the payment of bonuses to executive directors and the allocation of share options to employees.

Independent Expert's Report

Charteris Limited has prepared a Report on the technology, the strengths and weaknesses of Stilo's products, their markets, its corporate strategy, the competition and the risks. This Report is set out in full in Part III of this document.

Reasons for the Placing and the use of funds

The Company is raising £9 million before expenses through a placing of 18 million new Ordinary Shares at 50p per share. The net proceeds of the Placing, amount to approximately £8.5 million.

The funds raised will be used to establish sales, training and consultancy operations in the UK, USA and Germany, by means of organic growth or possible acquisition and to appoint distributors in all other major countries.

The Directors believe that the heightened profile of the Company resulting from a flotation on AIM will enhance its international image and will also increase the attractiveness of the Company as an employer of the high quality staff upon which much of its future depends.

The Placing arrangements

Under the Placing Agreement, Teather & Greenwood have agreed to use their reasonable endeavours, as agent for the Company, to procure subscribers for the Placing Shares at the Issue Price. Fees and commissions are payable to Teather & Greenwood and ARMCF for its services under the Placing Agreement. The agreement contains warranties and indemnities given by the Company and the directors to ARMCF and to Teather & Greenwood. Further particulars of the Placing Agreement are set out in paragraph 6 of Part IV of this document.

None of the Directors are selling shares in the Placing. The Directors have also agreed not to sell any of their interests in the Ordinary Shares of the Company until the publication of the interim results for the six months to 30 June 2001.

The Placing Shares will be in registered form and on Admission, will rank pari passu in all respects with the other issued Ordinary Shares.

It is expected that definitive title to the Placing Shares will be delivered either under CREST on the date of Admission where delivery is requested in uncertificated form, or by posting share certificates by first class post by not later than 6 September 2000 where delivery is requested in certificated form. Delivery of share certificates by first class post will be at the risk of the shareholder. No temporary documents of title will be issued.

At the Placing Price of 50p per Ordinary Share, the market capitalisation of the Company, following the Placing, will be £21 million. 18 million Ordinary Shares are being placed, representing 42.86 per cent of the enlarged ordinary share capital. Following the Placing, the Directors will own approximately 39.48 per cent of the enlarged issued share capital of the Company.

Risk factors

- Stilo has a relatively short operating history in a fast developing industry. An investment in the Company may involve significant risks, including those listed below. The Company may have difficulty developing its business swiftly enough to establish a strong position in a rapidly growing competitive environment.
- Stilo may not be able to expand its staff with people of adequate experience and calibre to keep ahead of the competition in its marketplace.
- Co-operation with and support from, major promoters of XML may not be long lasting.
- The Company intends to establish marketing organisations in the USA and Germany. This may prove more difficult than the Directors anticipate.
- Competition may grow from companies with much greater capital resources than those of Stilo.
- Competition from similar products may develop faster than the Directors anticipate.
- There can be no assurance that the Company will successfully develop new products with technological characteristics which will prove successful in its markets.
- The XML language upon which the Company's business is based, may be substituted in time.
- There can be no certainty that it will be possible to raise additional capital should this prove necessary to maintain and develop the Company's business.

Taxation

The following statements are intended only as a general guide to the current position under United Kingdom law and Inland Revenue practice and may not apply to certain classes of person (such as dealers in securities). Any person who is in any doubt as to his tax position, or who is subject to tax in a jurisdiction outside the United Kingdom, should consult his professional advisers.

Dividends

Under current legislation, no tax will be withheld from any dividends paid by the Company.

A United Kingdom resident individual shareholder who receives a dividend is treated as receiving income of an amount equal to the sum of the dividend and its associated tax credit. Such tax credit for dividends is 10 per cent of the combined amount of the dividend and the tax credit (i.e. the tax credit will be one-ninth of the dividend paid). The tax credit will discharge in full the income tax liability of any taxpayer other than a higher rate taxpayer, who will have an additional liability. The special rate of tax for higher rate taxpayers who receive dividends is 32.5 per cent, this rate being applied to the combined amount of the dividend and the tax credit. After taking into account the 10 per cent tax credit, such a taxpayer would have to account for an additional 22.5 per cent. In determining which tax rates apply to a United Kingdom resident individual shareholder, dividend income is treated as the top slice of his or her income.

United Kingdom resident trustees of most discretionary trusts are liable to account for income tax at the rate of 25 per cent on the combined amount of the dividend and the tax credit. After taking into account the tax credit, such trustees would have to account for an additional 15 per cent.

Tax credits are not repayable to UK resident taxpayers except, under transitional arrangements for dividends paid by 5 April 2004, to certain charities and in respect of shares held in PEPs or ISAs.

A United Kingdom resident (for tax purposes) corporate shareholder (other than certain insurance companies and others holding the shares as trading assets) holding its shares as an investment will not normally be liable to United Kingdom corporation tax on dividends received from the Company.

Enterprise Investment Scheme ("EIS")

The Inland Revenue has given assurances that the Placing Shares will, depending upon the status of the investor, be eligible shares that qualify for EIS relief. Assurances have also been given by the Inland Revenue that the Placing Shares will be eligible shares if subscribed for by a Venture Capital Trust ("VCT"). The Directors have also been advised that the Placing Shares should, depending upon the status of the investor, be eligible shares under the terms of the Corporate Venturing Scheme, introduced by the Finance Act 2000. No advance assurances to this effect have been sought from the Inland Revenue.

The EIS and VCT legislation is complex, and the Company cannot undertake that its shares will always continue to qualify however there is no present intention to take any action which would result in relief being withdrawn.

EIS relief

Income tax relief, capital gains tax exemption, loss relief and capital gains tax deferral together comprise tax reliefs under the EIS legislation. Reliefs can only be claimed by a qualifying individual who subscribes for eligible shares in a qualifying company, save that capital gains tax deferral may also be claimed by certain trustees. An investor cannot claim relief in respect of any amount subscribed in excess of £150,000 in any tax year (this limit applies to the aggregate of all potentially eligible shares and not to each share issue), save that capital gains tax deferral may be claimed without limit.

(a) *Income tax relief.* Qualifying individuals can credit an amount equal to tax at the lower rate on the amount subscribed for eligible shares against their total liability to income tax for the tax year in which the shares are issued. For the 2000/01 tax year the relief is obtained at the lower rate of 20 per cent. The relief is available against UK tax liability irrespective of whether or not the investor is resident in the UK. The amount of relief given cannot exceed an individual's tax liability before other reliefs given by way of discharge of tax.

    A qualifying individual can claim to carry back part of his subscription to the previous tax year where eligible shares are issued between 6 April and 5 October. The maximum amount which may be carried back is the lesser of £25,000 and 50 per cent of the amount subscribed by the individual.

(b) *Capital gains tax relief*. To the extent EIS income tax relief is available and not liable to be withdrawn, any capital gain accruing to the original investor on the disposal of his shares shall be exempt from capital gains tax, provided that the shares have been held for at least three years.

(c) *Loss relief*. If the original investor disposes of his shares at a loss, the net loss (after EIS income tax relief) may be set against other taxable income or chargeable gains, at the election of the investor, and at the then applicable marginal rate of tax.

(d) *Capital gains tax deferral*. The liability to capital gains tax arising on the disposal of any asset may be deferred by investing the gain in eligible shares. The investment must be made within the period beginning one year before and ending three years after the event which gives rise to the gain being deferred.

Stamp duty and stamp duty reserve tax

Under current UK legislation relating to stamp duty and stamp duty reserve tax:

(a) no liability to stamp duty or stamp duty reserve tax will arise on the allotment of Ordinary Shares under the Placing;

(b) a transfer or sale of Ordinary Shares will generally be subject to stamp duty on the instrument of transfer, normally at the rate of 0.5 per cent of the amount or value of the consideration. Where an agreement to transfer such shares is not completed by a duly stamped instrument of transfer, a charge to stamp duty reserve tax (generally at the same rate) will generally arise;

(c) special rules apply to market-makers, broker-dealers and certain other persons; and

(d) transfers on sale and agreements to transfer shares to charities will not give rise to stamp duty or stamp duty reserve tax.

Taxation of chargeable gains

If a UK resident or ordinarily resident shareholder disposes of all or any of the Ordinary Shares acquired under the Placing, he or she may incur a liability to taxation on chargeable gains, depending upon the shareholder's particular circumstances. Individuals, personal representatives and trustees may be entitled to taper relief which may serve to reduce the gain chargeable. Companies and other corporate bodies are not entitled to taper relief but may be entitled to indexation allowance which may also serve to reduce the gain chargeable. A shareholder not resident or ordinarily resident in the UK will not normally be liable to UK taxation on gains unless the shareholder is trading in the UK through a branch or agency and the Ordinary Shares are used or held for the purposes of the branch or agency.

CREST

CREST is a paperless settlement procedure. The Company's Articles of Association permit its shares to be held under the CREST system.

The Company has requested for its Ordinary Shares to be admitted to CREST and CRESTCO Limited has accepted this application, with effect from Admission. CREST is a voluntary system and, subject to certain limitations, holders of Ordinary Shares may choose to receive share certificates or hold Ordinary Shares in uncertificated form.

Other information

Your attention is drawn to the following:

Part II Accountants' Reports

Part III Independent Expert's Report

Part IV Additional Information

PART II (a)

ACCOUNTANTS' REPORT ON STILO INTERNATIONAL PLC

The following is a copy of a Report from HLB Kidsons, the Company's auditors and Reporting Accountants:

HLB Kidsons

Chartered Accountants

Stilo International plc
Empire House
Mount Stuart Square
Cardiff CF10 6DN

ARM Corporate Finance Limited
12 Pepper Street
London E14 9RP

Teather & Greenwood Limited
Beaufort House
15 St Botolph Street
London EC3A 7QR

[16] August 2000

Dear Sirs

We report in connection with the Prospectus dated [16] August 2000 ("the Prospectus") issued by Stilo International plc ("the Company") concerning the proposed issue by the Company of [18 million] ordinary shares at [50]p each and the admission of the enlarged issued share capital to AIM.

The Company was incorporated in England on 14 December 1999 as Rediartic Limited (company number 3893693). The Company changed its name to Stilo Holdings Limited on 27 March 2000 and then to Stilo International Limited on 13 April 2000. It was registered as a public company on [16] August 2000. Other than the acquisition of the entire share capital of Stilo Technology Limited referred to below, the Company has not traded and has not declared or paid a dividend since the date of incorporation.

2 ordinary shares of £1 were issued on 14 December 1999. At 31 December 1999 the net assets of the Company consisted of £2 in cash. In our opinion the above report gives a true and fair view of the state of affairs of the Company at 31 December 1999.

On [16 August] 2000 the Company acquired all the issued ordinary share capital of Stilo Technology Limited in exchange for the issue of [500,000] Ordinary Shares to the shareholders of Stilo Technology Limited in proportion to their respective holdings. The authorised share capital at the date of the Prospectus is [£5,400,000] representing [54,000,000] ordinary shares of [10p] each.

We consent to the inclusion of this report in the Prospectus and take responsibility for the report in accordance with paragraph 45(8)(b) of Schedule 1 of the Public Offers of Securities Regulations 1995.

Yours faithfully
HLB Kidsons

Spectrum House, 20-26 Cursitor Street, London EC4A 1HY. DX 458 London Chancery Lane WC2.
Tel: 020 7405 2088. Fax: 020 7831 2206. e-mail: mailbox@kilondon.hlbkidsons.co.uk www.hlbkidsons.co.uk

PART II (b)

ACCOUNTANTS' REPORT ON STILO TECHNOLOGY LIMITED

The following is a copy of a Report from HLB Kidsons, the Company's auditors and Reporting Accountants:

HLB Kidsons

Chartered Accountants

The Directors
Stilo International plc
Empire House
Mount Stuart Square
Cardiff
CF10 6DN

The Directors
ARM Corporate Finance Ltd
12 Pepper Street
London
E14 9RP

Teather & Greenwood Limited
Beaufort House
15 St Botolph Street
London EC3A 7QR

[16] August 2000

Dear Sirs

Stilo Technology Ltd

We report on the financial information set out on pages [21] to [31] of this document.

Basis of preparation

The financial information set out on pages [21] to [31] is based on the financial statements of Stilo Technology Ltd ("Stilo") for the three years and five months ended 31 December 1999. Stilo's financial statements for the periods up to 31 July 1998 were not audited as the company satisfied audit exemption criteria.

Responsibility

The financial statements are the responsibility of the directors of Stilo, who have approved their issue. The directors of Stilo are responsible for the contents of the prospectus dated [16] August 2000 in which this report is included.

It is our responsibility to prepare the financial information set out in our report, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information, including, where appropriate, evidence recorded by the auditors who audited the financial statements underlying the financial information.

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It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to Stilo's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatements, whether caused by fraud or other irregularity or error.

Opinion

In our opinion the financial information gives, for the purpose of the prospectus dated [16] August 2000, a true and fair view of the state of the affairs of Stilo as at the dates stated and of its results and cash flows for the years then ended.

Consent

We consent to the inclusion in the prospectus dated [16] August 2000 of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Profit and Loss Accounts

	Note	*Year ended 31 July 1997 £'000*	*Year ended 31 July 1998 £'000*	*17 months ended 31 December 1999 £'000*
Turnover		60	47	99
Administration expenses		(68)	(53)	(386)
Operating loss	1	(8)	(6)	(287)
Interest receivable		—	—	6
Interest payable		—	—	(1)
Loss on ordinary activities before taxation		(8)	(6)	(282)
Taxation on loss on ordinary activities	3	2	—	—
Loss on ordinary activities after taxation		(6)	(6)	(282)

Operations

All of Stilo's activities during the period arose from continuing operations.

Total recognised gains and losses.

There are no recognised gains and losses other than those dealt with in the profit and loss accounts.

Balance Sheets

	Note	*31 July 1997 £'000*	*31 July 1998 £'000*	*31 December 1999 £'000*
Fixed assets				
Tangible assets	7	—	—	28
Intangible assets	8	—	—	19
		—	—	47
Current assets				
Work in progress		—	15	11
Debtors	9	11	13	76
Cash at bank and in hand		—	—	241
		11	28	328
Creditors: amounts falling due within one year	10	(6)	(12)	(108)
Net current assets		5	16	220
Total assets less current liabilities		5	16	267
Creditors: amounts falling due after more than one year	11	—	(17)	—
Net (liabilities)/assets		5	(1)	267
Capital and reserves				
Called up equity share capital	13	—	—	—
Share premium	14	—	—	550
Revenue reserves deficit	15	5	(1)	(283)
Equity shareholders' (deficit)/funds	16	5	(1)	267

Cash Flow Statements

	Note	*Year ended 31 July 1997 £'000*	*Year ended 31 July 1998 £'000*	*17 months ended 31 December 1999 £'000*
Net cash flow from operating activities	4	(5)	(7)	(253)
Returns on investments and servicing of finance				
Interest received		—	—	5
Taxation		—	—	(2)
Capital expenditure				
Purchase of tangible fixed assets		—	—	(31)
Purchase of intangible fixed assets		—	—	(21)
		—	—	(52)
Cash outflow before financing		(5)	(7)	(302)
Financing				
Issue of shares		—	—	550
Increase in cash in the period		—	—	248

Accounting Policies

The financial information set out in this report has been prepared in accordance with the Financial Reporting Standard for Smaller Entities. The principal accounting policies, which have been applied for all periods covered by this report to which they are relevant, are as follows:

Basis of accounting

The financial information has been prepared under the historical cost accounting convention.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives, as follows:

Office equipment	—	20% per annum
Computer equipment	—	33.3% per annum

No depreciation is provided in the month of acquisition, and a full month's depreciation is provided in the month of disposal.

Intangible fixed assets – goodwill

This represents the payment made to Stilo Associates for goodwill. The goodwill is being amortised in equal annual instalments over 5 years.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Deferred income

This represents income received from clients in advance of work done.

Research and development

Expenditure incurred on research and development of the company's software projects is written off to the profit and loss account as it is incurred.

Share premium account

Expenses directly related to the external investment and share reorganisation in June 1999 are written off to the share premium account.

Turnover

Turnover, which excludes value added tax, represents the invoiced value of contracts which were completed during the period as well as the estimated value of partially completed contracts at 31 December 1999.

Notes to the Financial Information

1 Operating loss

Operating loss is stated after charging:

	Year ended 31 July 1997 £'000	*Year ended 31 July 1998 £'000*	*Period ended 31 December 1999 £'000*
Auditors' remuneration—audit	—	—	6
Depreciation of tangible fixed assets	—	—	3
Amortisation of intangible fixed assets	—	—	2

2 Directors and employees

Staff costs including directors emoluments:

Wages and salaries	—	—	146
Social security costs	—	—	16
Pension costs	—	—	—
	—	—	162

The average weekly number of employees employed by the company was:

	Number	*Number*	*Number*
Management and administration	4	4	5
	£'000	*£'000*	*£'000*
Directors' emoluments	—	—	146
Directors' fees	—	—	12
Total directors' emoluments	—	—	158

No director exercised any share options during the period and no amounts were paid or payable to any director in respect of long term incentive schemes.

3 Taxation

There is no taxation liability on the company due to the trading losses recorded.

4 Reconciliation of operating profit to net cash inflow from operating activities

	Year ended 31 July 1997 £'000	*Year ended 31 July 1998 £'000*	*Period ended 31 December 1999 £'000*
Operating (loss)	(8)	(6)	(287)
Depreciation and amortisation	—	—	6
(Increase)/decrease in work in progress	—	(15)	4
(Increase) in debtors	6	(2)	(65)
Increase in creditors	(3)	16	89
	(5)	(7)	(253)

5 Reconciliation of net cash flow to movement in net funds

(Decrease)/increase in cash in the period	(5)	(7)	248
Movement in net funds in the period	(5)	(7)	248
Net funds at start of period	5	—	(7)
Net funds at close of period	—	(7)	241

6 Analysis of net funds

	Cash at bank and in hand £'000
1 August 1996	5
Cash flows	(5)
31 July 1997	—
Cash flows	(7)
31 July 1998	(7)
Cash flows	248
31 December 1999	241

7 Tangible fixed assets

	Office equipment £'000	Computer equipment £'000	Total £'000
At cost			
At 1 August 1996	—	—	—
Additions	—	—	—
Disposals	—	—	—
At 31 July 1997	—	—	—
Additions	—	—	—
Disposals	—	—	—
At 31 July 1998	—	—	—
Additions	6	25	31
Disposals	—	—	—
At 31 December 1999	6	25	31
Depreciation			
At 1 August 1996	—	—	—
Disposals	—	—	—
Charge for period	—	—	—
At 31 July 1997	—	—	—
Disposals	—	—	—
Charge for period	—	—	—
At 31 July 1998	—	—	—
Disposals	—	—	—
Charge for period	—	3	3
At 31 December 1999	—	3	3
Net book value			
31 December 1999	6	22	28
31 July 1998	—	—	—

Capital expenditure, authorised and contracted at period end

1999	—
1998	—
1997	—

8 Intangible fixed assets

	Total £'000
Cost	
At 1 August 1998	—
Additions	21
At 31 December 1999	21
Amortisation	
At 1 August 1998	—
Charge for period	2
At 31 December 1999	2
Net book value	
31 December 1999	19

The purchased goodwill was acquired by the company from Stilo Associates, a partnership controlled by Stephen Buswell, Stephen Healey, Martin Pike and Professor Roy Pike.

9 Debtors

	31 July 1997 £'000	*31 July 1998 £'000*	*31 December 1999 £'000*
Amounts falling due within one year:			
Trade debtors	—	2	50
Amount due from associated undertaking	—	—	—
Other debtors	11	11	26
Prepayments and accrued income	—	—	—
	11	13	76

10 Creditors: amounts falling due within one year

Bank overdraft	—	7	—
Trade creditors	2	1	51
Amount due to associated undertaking	—	—	—
Other taxation and social security	—	—	—
Other creditors including accruals and deferred income	4	4	57
	6	12	108

11 Creditors: amounts falling due after more than one year

Deferred income	—	17	—

12 Deferred taxation

The company had no liability for deferred taxation in the period covered by this report.

13 Share capital

	Authorised Number	Authorised £	Allotted, called up and fully paid Number	Allotted, called up and fully paid £
31 July 1997				
Ordinary shares of £1 each	1,000	1,000	100	100
31 July 1998				
Ordinary shares of £1 each	1,000	1,000	100	100
31 December 1999				
Ordinary shares of 10 pence each	999,565	99,956	1,015	101
'A' Ordinary shares of 10 pence each	435	44	435	44
				145

During the year the authorised share capital of the company was increased to 100,000 £1 ordinary shares. Each of those £1 ordinary shares were then sub-divided into 10 ordinary shares of 10p each.

On 28 June 1999 as part of the re-organisation of the authorised share capital noted above, the extant 100 £1 ordinary called up and fully paid shares in the company were each sub-divided into 10 ordinary shares of 10p each having the rights and obligations set out in the Article of Association.

On 28 June 1999 435 unissued ordinary shares of 10p each in the capital of the company were each reclassified as 'A' ordinary shares.

On 28 June 1999 the 435 'A' ordinary shares were allocated for cash consideration of £600,000 to 3i plc. On the same date 15 ordinary shares of 10p each were allotted to Mr. Barry Welck a director of the company for a cash consideration of £10,000.

The 'A' ordinary shares carry an entitlement to a participating dividend (as a class) off 10 per cent of the net profit (as defined in the Articles of Association) of the company each year. Additionally, the 'A' ordinary shares carry the right to receive a compensatory dividend should the emoluments and other benefits received by certain directors exceed a certain amount.

Full details of the rights attaching to the 'A' ordinary shares are included in the Articles of Association of the company, filed with the Registrar of Companies.

14 Share premium

	31 July 1997 £'000	31 July 1998 £'000	31 December 1999 £'000
Premium on issue of 'A' ordinary shares	—	—	610
Less: costs of issue	—	—	(60)
	—	—	550

15 Profit and loss account

	31 July 1997 £'000	31 July 1998 £'000	31 December 1999 £'000
Balance at start of period	11	5	(1)
Retained (loss) for the period	(6)	(6)	(282)
Balance at close of period	5	(1)	(283)

16 Reconciliation of equity shareholders' (deficit)/funds

	31 July 1997 £'000	*31 July 1998 £'000*	*31 December 1999 £'000*
Balance at start of period	11	5	(1)
Subscription for shares	—	—	550
(Loss) for the financial period	(6)	(6)	(282)
Closing shareholders (deficit)/funds	5	(1)	(267)

17 Financial commitments

Financial commitments under non-cancellable operating leases will result in the following payments falling due within twelve months of the balance sheet date at 31 December 1999.

	Land and buildings £'000
Lease expiring:	
Between two and five years	8

18 Contingent liabilities

There were no material contingent liabilities of the company as at 31 December 1999.

19 Related party transactions

On 28 June 1999 the company purchased assets from Stilo Associates, a partnership whose partners were Stephen Buswell, Stephen Healey, Martin Pike and Professor Roy Pike. All these individuals are directors of Stilo Technology Limited. The assets purchased were as follows:

	£
Computer equipment	9,000
Goodwill	21,000
Intellectual property rights	1
	30,001

The partnership ceased to trade on 28 June 1999.

During the period covered by these accounts the company purchased services from the Stilo Associates Partnership to a value of £60,064.

At 31 December 1999 an amount of £15,126 was due to Stilo Associates by Stilo Technology Limited.

All transactions were at arm's length.

20 Audited financial statements

The statutory financial statements for the two years ended 31 July 1998 were not audited as the company satisfied audit exemption criteria on grounds of its size.

The statutory financial statements for the period ended 31 December 1999 were audited by Milford Jenkins & Co of Victoria House, Cowbridge Road, Cardiff, CF5 1G2. Their audit reports on the financial statements was unqualified.

Yours faithfully

HLB Kidsons

PART III

Independent Expert's Report

The following is the text of the Report from Charteris Limited:

CHARTERIS

Charteris Ltd
6 Kinghorn Street
London EC1A 7HW
phone +44 20 7600 9199
fax +44 20 7600 9212

The Directors
Stilo International plc
Empire House
Mount Stuart Square
Cardiff CF10 6DN

ARM Corporate Finance Limited
12 Pepper Street
London E14 9RP

Teather & Greenwood Limited
Beaufort House
15 St Botolph Street
London EC3A 7QR

16 August 2000

Dear Sirs,

Expert's Report on Stilo International plc

Charteris is a management consultancy that specialises in helping clients create an effective bridge between business strategy and information systems. Charteris also offers independent support to companies investing in, acquiring or selling technology businesses by supporting strategic investment decisions and undertaking due diligence.

Background to the report

Charteris has been instructed by ARM Corporate Finance and Teather & Greenwood, on behalf of Stilo International plc, to prepare a report for inclusion in the prospectus relating to Stilo incorporating, inter alia, the market potential for Stilo's products, the merits of Stilo's products and the risk factors which might affect Stilo.

In preparing this report meetings were held with Stilo, documents provided by Stilo were reviewed, the XML market as a whole and for XML development tools in particular were researched and Stilo's XMLDeveloper product was given a hands-on test.

This report is limited specifically to the matters set out above and Charteris is not advising on the merits of an investment in Stilo. Charteris is not authorised to conduct investment business under the provisions of the Financial Services Act.

All opinions expressed in this report are of Charteris. Although Charteris has no reason to doubt the reliability of information in this report and has made reasonable effort to ensure its veracity, no guarantee can be given regarding either its accuracy or its completeness.

Structure of the report

This report covers the following topics:

- An introduction to XML
- The XML market
- Stilo's positioning as an XML company
- Assessment of Stilo's current products
- Assessment of Stilo's product plans
- Summary

An introduction to XML

The greatest driver of business change today is e-business, brought about by the Internet. In the near term, this will have most impact on business-to-business (B2B) transactions.

There were simultaneous announcements recently by Ford and General Motors that they both intend to use e-commerce for all their supply procurements – in Ford's case worth $80 billion per annum. Similarly, in April 2000 six of the world's top 10 passenger carriers came together to form a web-based trading exchange for the airline industry, with plans to channel their combined $50 billion procurement budgets through the site.

These announcements have parallels in all of the major industries and demonstrate that e-business has come of age.

To conduct e-business transactions, companies need a common language to exchange structured information between their computer systems. HTML, the first-generation language of the Internet, is not suited for this, as it defines only the formatting of information, not its meaning. Enter Extensible Mark-up Language – XML. Like HTML, XML consists of text delimited by 'tags'; so it is easily conveyed over the Internet. In XML the tags can define the meaning and structure of the information, enabling computer tools to use that information directly.

XML consists of a sequence of characters separated by 'tags', which are of a form like <product> or <customer>. A key feature of XML is that, unlike HTML which fully defines all the tags that can be used and so defines a language in itself, XML is a base-level standard on which many different tag sets (and so, different languages) can be defined, according to the application. There are already many hundreds of different XML languages/tag sets in use, in different market sectors such as finance and manufacturing.

In what follows, the phrase 'XML Schema' refers to a set of statements in a special-purpose language which defines the possible structures of an XML message (the tags and how they can be nested within one another). For example, an XML Schema for a procurement system may have a message called <order> which may include several <order line>s each of which has a <product>, <quantity> and <price>.

The original standard schema language for XML was Document Type Definitions (DTDs), but these have some shortcomings, and many replacements for DTDs have been proposed. One of these, XML Data Reduced (XDR) is used in the Microsoft-backed BizTalk initiative and so is particularly important.

The World-Wide Web consortium (W3C) are in the process of standardising a new schema language, XML Schema, which is likely to displace all other schema languages including XDR when it is fully defined.

An XML tool must be capable of supporting any XML language. Most tools need to use information from the schema to help to understand messages in the dialect. For example, <price> within a message describing an order may have a different meaning to <price> in a foreign exchange message. As soon as XML Schema becomes the standard, we would expect all tools to migrate rapidly to support XML Schema.

The XML market

XML has been embraced enthusiastically by all the major IT suppliers and user groups. Its standardisation and rapid take-up have been the major development in IT over the past two years. Industry competitors like IBM, Microsoft, Sun and Oracle all support the core XML 1.0 standard, are developing major products based on it and collaborate to develop related standards. XML is now the world standard platform for e-business transactions.

Charteris' view is that the use of XML will grow rapidly as more e-business applications are implemented and standards, like XML Schema, emerge.

While it is clear that XML will become an increasingly important feature of the IT landscape, it is as yet less clear what the future of XML tools is going to be due to the early stage of development of the market. There will be a demand for XML tools, the questions are which tools and from which suppliers.

Charteris believes that XML will follow the example of other IT standards, e.g. SQL (for databases) and Java (for programming) where there are some major players, e.g. Oracle and Microsoft, but no one company dominates the market and there are a significant number of smaller companies who compete successfully.

Stilo's positioning as an XML company

Stilo Technology was founded in 1995 and specialises in the provision of software, training and consultancy services that enable organisations to develop business systems more rapidly in XML and thereby reduce the time to market for new e-commerce applications.

Members of the Company have been actively involved in the development of XML standards and are a leading source of XML expertise. Martin Pike, Managing Director, was a member of the W3C Special Interest Group responsible for the development of the initial XML 1.0 standard. Stephen Buswell, Director of R&D, is the co-author of the MathML standard, a derivative of XML. The company has undertaken XML-related consultancy assignments on behalf of the Defence Evaluation and Research Agency (DERA) and the EEC, and in the UK sits on e-business working parties for the Business and Accounting Software Association (BASDA) and the Inland Revenue.

It is Stilo's vision to be a significant supplier of software and services to this rapidly expanding B2B market. In order to fund this they are now seeking to raise £9 million by means of an AIM flotation. Funding is required now to rapidly establish market share and to position the company prominently in the global XML software and services arena.

The funds raised will be used to establish Stilo's sales, training and consultancy operations in the UK, USA and Germany, by means of organic growth or possible acquisition, and to appoint distributors in all other major countries.

Stilo's Promotion by Other Organisations

For Stilo to succeed in this very competitive market they are going to need the support of other organisations which XML developers will naturally refer to.

Stilo has a relationship with Microsoft in Europe. The BizTalk Applications Architect for Microsoft EMEA has given a good reference for Stilo XMLDeveloper and Stilo has been invited by Microsoft to attend an international developers conference. Microsoft is also participating in Stilo's corporate training programmes.

Microsoft carries a description of XMLDeveloper on its web-site for developers, the Microsoft Developers Network (MSDN). This can be found at www.microsoft.com/europe/msdnfinance.

The BizTalk web-site (www.biztalk.org) carries the news story of the launch of XMLDeveloper.

XML.COM (www.xml.com) is a major web-site for XML developers and has a review of XMLDeveloper at www.xml.com/pub/p/stilo–xmldeveloper.

From these examples it can be seen that Stilo already has a presence in the XML world.

Assessment of Stilo's current products

Stilo's product portfolio currently comprises the following products (the descriptions are Stilo's own):

- Stilo XMLDeveloper
  Launched in January 2000, Stilo XMLDeveloper is a high-powered XML test message creation, editing and validation tool for IT application developers that reduces the time taken to implement new Business-to-Business communications and Enterprise Application Integration systems

- Stilo WebWriter
  A powerful XML content authoring tool for technical authors, administrative personnel and web site developers, that enables organisations to cost-effectively publish and maintain structured information on the Internet, including the support of new e-commerce applications.

- Stilo MathWriter
  A MathML expressions editor, that provides scientific, technical and academic publishers with the ability to communicate and present mathematical content over the Internet.

Charteris understands that Stilo XMLDeveloper is the most important of Stilo's products as far as future business is concerned and so our assessment of their products focused on this.

Technical Assessment of Stilo XMLDeveloper

To perform this technical review of Stilo's products and plans, we evaluated a test copy of XMLDeveloper sent to us by Stilo, read their literature and web-site, studied competitive products as publicised on the web, and visited Stilo's offices in Cardiff, discussing the products and plans with Martin Pike and Steve Buswell.

The functionality of XMLDeveloper is described as 'XML test message creation, editing and validation tool for IT application developers'. The 'validation' functionality consists of two parts:

- Validating that an XML message conforms to a schema
- Creating an XML Schema from an example message

The first of these functions is a standard and necessary function of validation. In XMLDeveloper every test message has to be composed by hand individually, a method which Stilo has developed due to the demand of its customers and its belief that this provides the best way of validation. Charteris is aware of one other tool of this kind, XML Generator, available from IBM which provides a multiple-message generation functionality.

XMLDeveloper creates a prototype schema from an example message. This provides a 'loose' schema which allows more message formats than needed for the application. This function gives a developer a starting point from which to modify and 'tighten' the schema and constitutes the basis for full schema editing functionality.

A key feature of XMLDeveloper is that it provides a graphic representation of schemas/DTDs such that developers can readily understand the underlying data structures to which they are working.

Other functionality offered in XMLDeveloper is the capability to transform an XML message for easy viewing on a web browser. Two routes are offered for this – the use of Cascading Style Sheets (CSS) and an internally developed XML dialect 'messageMap' to define formatting. These both meet current requirements but the developing standard for formatting XML for viewing on browsers will be via Extensible Style Language (XSL). Charteris understands that Stilo has plans in place to adopt XSL.

Charteris agrees with the directors of Stilo who believe that XML Developer is one of the first tools of its type in the market and hence has an opportunity to establish itself as a recognised software tool for use by application developers.

Market assessment of Stilo XMLDeveloper

We anticipate four areas of competition:

- Freeware, including XML, XSL editors and parsing tools
  e.g. Microsoft, Commerce One
- Specialist XML companies
  e.g. Vervet Logic, Icon and Extensibility
- Established vendors of SGML / HTML authoring tools
  e.g. SoftQuad, Arbortext
- Major technology vendors
  e.g. Microsoft, Oracle, IBM

While Freeware is likely to remain a source of specialist tools these are unlikely to compete directly with Stilo XMLDeveloper due to their lack of functionality, the quality of the products and the availability of support.

The established vendors of SGML/HTML authoring tools will remain competitors to Stilo WebWriter but are less likely to compete against Stilo XMLDeveloper as the nature of the tools is quite different.

We believe that the main competition to XMLDeveloper will come from companies with similar backgrounds to Stilo and from major technology vendors.

Major technology vendors

Several of the major technology vendors are starting to produce a range of XML tools but the market has not yet defined what XML tools are needed and there are no dominant players. As described above, Charteris expects all of the major IT companies (Oracle, Microsoft, IBM, etc.) to be major players in XML but does not expect any of them to dominate the market.

Oracle (http://www.oracle.com) is developing a 'ground-up' set of tools for XML development around the Oracle database. These are at programmer level, and fairly comprehensive at the basic level. Given Oracle's strong commitment to XML, one would expect it to grow this toolset upwards to encompass whatever middle-level functionality the market deems useful. While it is likely that Oracle will be an important player in the XML development tools market they will mainly appeal to IT departments which already use other Oracle tools.

Microsoft (http://www.microsoft.com) is not yet providing very much in the way of XML tools. There is an XML Parser which can be downloaded but little else.

IBM AlphaWorks (http://www.alphaworks.ibm.com) is issuing many XML development tools, some quite powerful, on a free evaluation basis. The largest of these is an integrated suite 'Visual XML tools' which has some overlaps with XML Developer but tackles several functions which XMLDeveloper does not. As with Oracle, some of the tools in the suite are tied into other IBM products like DB2 and WebSphere.

The producers of interactive visual development environments such as Delphi, Visual Café and C++ tools have not yet announced much in the way of XML support, but one imagines that it will not be long before they do. Again, anything they can do easily and integrate with their own environment, one expects them to do.

Specialist XML companies

The following examples of companies offering XML products today are given for several reasons. They provide an indication of the immaturity of the market, the status of some of the companies addressing it, the types of XML products that are emerging and the nature of the competition that Stilo faces.

The product descriptions given here are precised from the suppliers' own, usually taken directly from their web-sites and do not necessarily reflect the opinion of Charteris.

XML Pro from Vervet Logic (www.vervet.com)

Vervet Logic is a software development company, based in the USA, currently developing XML Tools and other web related products.

XML Pro v2.0 offers the features of an advanced XML Editor with an interface that allows XML experts and novices alike to create valid, well-formed XML documents. XML Pro provides the quick, functional editing solution missing from many high-end packages.

XML Spy from Icon (www.icon-is.com)

Icon Information Systems is based in Vienna, Austria and was established in 1992 as a technology service provider for developing intelligent information-systems.

XML Spy is a professional validating XML editor for Windows developers, IT professionals and Web-Design people that lets you edit all XML, XHTML, XSL, RDF, 3DML, and DTD files and provides three advanced views on your documents: an Enhanced Grid View for structured editing, a Source View with syntax-colouring for low-level work, and an integrated Browser View that support CSS and XSL style-sheets.

Market assessment of Stilo WebWriter

Stilo claim that XML editing tools tend to fall into two camps: those that allow you to define XML structure completely freely (unconstrained by any schema) and those that are completely constrained by the schema. WebWriter, however, allows you to be guided by the schema yet break out of it (and so modify it) when you want to. This seems to be particularly useful functionality; in practice people do need to develop schemas in an exploratory manner, finding out by example what is needed.

There are a large number of XML editors on offer, typically at low prices or free, which are not considered to be competing with Stilo WebWriter. No clear market leader has yet emerged though two leading products are XML Spy and XML Pro. More importantly, people do not yet really know what they want from an XML editor; no dominant paradigm of ‘what an XML editor is’ has yet emerged and a substantial opportunity therefore still exists for companies to establish their products.

The main competition to WebWriter comes from established authoring software companies who have produced XML authoring tools from existing SGML authoring tools.

Two examples that keep coming up on other organisations’ web-sites (e.g. http://www.xml.org and http://www.xml.com) are SoftQuad’s XMetaL and Abortext’s Adept Editor family both of which are described below.

XMetaL from SoftQuad (http://www.xmetal.com and http://www.softquad.com)

SoftQuad Software Inc. (“SoftQuad”), based in Toronto, was founded in November 1998. SoftQuad is not subject to the reporting requirements administered by the Securities and Exchange Commission and therefore has not filed publicly available financial statements.

Revenues for fiscal 1999 (ending 30 September 1999) are believed to be approximately $5 million.

SoftQuad is a leading developer of XML enabling technologies and commerce solutions for e-business, announced in April the shipment of XMetaL to its 1,000th customer in less than one year. XMetaL has been accepted as the enabler for XML content applications by some of the world’s leading companies, such as Daimler Chrysler, Deutsche Bank, British Aerospace, Qantas, Boeing, Lucent Technologies, British Telecom, Microsoft, Amazon.com, Northern Telecom, Oracle, IBM, Ericsson and Continental Airlines.

The company also announced in April that it had completed a private placement of 2 million “units” at $7.50 per “unit” with gross proceeds of $15 million. The company currently has 16.2 million shares in issue (22.8 million fully diluted), which at a share price of $9.7 on 10 August 2000 equates to a valuation of approximately $157 million.

Adept Editor from Abortext (http://www.arbortext.com/)

Arbortext is a frontrunner in the dynamic Extensible Mark-up Language (XML) market, being the first company to offer XML-based e-Content software solutions. Arbortext claims to lead the market with a compound growth rate of 40 per cent.

Privately held. Arbortext has received a total of $16.55 million in financing, including $10.25 million in February 1999 to expand its sales and marketing efforts.

Arbortext's products include Adept Editor LE (Lite Edition), Adept Editor, Adept Publisher, Epic Editor and Epic Publisher. These products are XML, and SGML, based and are backed by a full range of professional services.

Adept Editor allows authors to write text, create tables, place graphics, and author web content, manuals, catalogues, encyclopaedias and other business and technical documents. Because Editor supports the creation of multi-level compound documents, which both enables and reuse, many authors can collaborate simultaneously on the same document.

Market assessment of Stilo MathWriter

W3C has been working with a number of companies with experience in editing and processing math on computers, as well as other specialist organisations. This work has culminated in a mark-up language called MathML and W3C released MathML 1.0 as a Recommendation in April 1998. On 7 July 1999 the Math Working Group posted MathML 1.01, a revised version of the MathML 1.0 Recommendation.

We did not examine Stilo MathWriter, but gained the impression that Stilo probably has a world-leading position in and reputation in this very niche market, but as Stilo MathWriter has not yet been launched, it is difficult to assess the likely success of the product itself.

Assessment of Stilo's product plans

We examined Stilo's product development plans which are considered confidential.

It is the intention of the Company to develop a suite of tools for developers and publishers. In our opinion, the tools planned by the Company would produce a toolkit fitting in a spectrum above XML editors but below the functionality of full development environments.

Charteris believes that Stilo's experience of XML and related technologies, such as SGML, positions it well to develop XML products to suit the market as it matures.

Building the Stilo team

As most development has been done by the founders in a very small team, the approach to project planning and documentation has been largely informal. They recognise that this has to change and, with their Logica background, Charteris is confident that Stilo understands the kinds of changes, to formal project planning and reporting, more extensive and formalised documentation etc., that this will require.

The product source code is already large (over 200,000 lines of code) which presents a large learning threshold for new joiners. However, we believe that this code is well structured and that new joiners can actually start to be productive fairly soon, which is an important consideration bearing in mind the requirement to quickly build the Company's development team. The Company is also confident that the current system is well designed and is a solid basis for future work.

Summary

Members of the Company have been actively involved in the development of XML standards and are a leading source of XML expertise. Stilo is believed to be the first UK company developing XML tools and MathML tools.

Although the Market for XML tools of all sorts is expected to become very competitive, this can be seen in the context of a substantial and rapidly growing market in which there should be significant opportunities for smaller companies to take advantage.

Stilo has demonstrated its capability to produce products which are distinctive within the market for XML tools. The Company will have to be able to develop its products rapidly and address them to the emerging requirements of the market. Smaller companies have a tendency to be able to react more quickly to market demands than their larger competitors, nonetheless the threat to Stilo is that as XML moves quickly away from being niche to being mainstream then niche players are less able to compete effectively against the major IT companies like Oracle, IBM and Microsoft.

Stilo is aware of what needs to be done to gain market share quickly before established IT companies dominate this market.

Yours sincerely

Matthew Rees
Principal

PART IV

Additional Information

1. The Company

(a) The Company was incorporated on 14 December 1999 as Rediartic Limited in England and Wales under the Act as a private company limited by shares with registered number 3893693. The Company changed its name to Stilo Holdings Limited on 27 March 2000 and to Stilo International Limited on 13 April 2000. The Company was re-registered as a public company limited by shares under the name Stilo International plc on 16 August 2000.

(b) The Company is the holding company for one subsidiary, Stilo Technology Limited (reg. no. 3108773), whose business is described in this document, and which is wholly owned by the Company.

(c) The Company's registered office is Empire House, Mount Stuart Square, Cardiff, CF10 6DN.

(d) The liability of the members of the Company is limited.

2. Share Capital

(a) The existing authorised and issued fully paid up share capital of the Company as at the date of this document is:

	Authorised		*Issued and fully paid*	
	Number	*Amount*	*Number*	*Amount*
Ordinary Shares of 10p	500,000	£50,000	500,000	£50,000

(b) The authorised and issued fully paid up share capital of the Company as it is expected to be following completion of the Placing is set out below:

	Authorised		*Issued and fully paid*	
	Number	*Amount*	*Number*	*Amount*
Ordinary Shares of 10p	54,000,000	£5,400,000	42,000,000	£4,200,000

(c) (i) As at 14 December 1999 the authorised share capital of the Company was £100 divided into 100 Ordinary Shares of £1 each of which 2 Ordinary Shares of £1 each were in issue.

(ii) On 16 August 2000 the Company's authorised share capital was increased from £100 to £50,000 by the creation of an additional 49,900 Ordinary Shares of £1 each.

(iii) On 16 August 2000 the Company's authorised share capital of £50,000 comprising 50,000 Ordinary Shares of £1 each was sub-divided into 500,000 Ordinary Shares of 10 pence each and 148,060 of such Ordinary Shares of 10 pence each were reclassified as one "A" Ordinary Share of 10 pence each.

(iv) On 16 August 2000 683 Ordinary Shares of 10 pence each and 297 "A" Ordinary Shares of 10 pence each were issued for cash to the shareholders of Stilo Technology Limited.

(v) On 16 August 2000 351,237 Ordinary Shares of 10 each and 147,763 "A" Ordinary Shares of 10p each were issued as consideration to the shareholders of Stilo Technology Limited for the acquisition by the Company of the entire issued share capital of Stilo Technology Limited.

(vi) On 16 August 2000 each of the 148,060 "A" Ordinary Shares of 10 pence each in the Company were reclassified as 1 Ordinary Share of 10 pence in the Company.

(d) By Resolutions passed at an Extraordinary General Meeting of the Company on 16 August 2000 ("the Resolution") the Company resolved that, inter alia:

(i) the Directors be generally and unconditionally authorised pursuant to Section 80 of the Act to allot, grant options over, offer or otherwise deal with relevant securities up to an aggregate nominal amount of £[1,200,000] during the period expiring on the fifth anniversary of the passing of the Resolution provided that the Company may before such expiry make an offer or agreement which would or might require such shares to be allotted after such expiry and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority conferred by the Resolution had not expired; and

(ii) the Directors be empowered to allot equity securities pursuant to the authority referred to in sub-paragraph (d)(i) above as if Section 89(1) of the Act did not apply to any such allotment.

(iii) The Company's share capital was increased to [5,400,000] by the creation of an additional [49,000,000] Ordinary Shares of 50p each.

(iv) 23,500,000 Ordinary Shares be issued, conditional upon Admission, (by way of capitalisation of part of the share premium account of the Company arising in connection with the Placing), credited as fully paid up, to the members of the Company *pro rata* to their respective shareholdings immediately prior to completion of the Placing, in the proportion of 47 Ordinary Shares for each Ordinary Share then held by such members.

(e) The provisions of Section 89(1) of the Act (which, to the extent not disapplied pursuant to section 95 of the Act, confer on shareholders rights of pre-emption in respect of the allotment of securities which are, or are to be paid up in cash other than by way of allotment to employees under any employee's share scheme as defined in Section 743 of the Act) apply to the authorised but unissued share capital of the Company to the extent not disapplied as described in paragraph 2(d)(ii) above. Subject to certain limited exceptions, unless the approval of shareholders in general meeting is obtained, the Company must normally offer Ordinary Shares to be issued for cash to existing ordinary shareholders on a pro rata basis.

(f) The Placing Shares will rank in full for all dividends or other distributions hereafter declared, paid or made on the ordinary share capital of the Company.

(g) Following the Placing 12,000,000 Ordinary Shares will remain authorised but unissued.

(h) Save as disclosed in paragraph 5, no share capital of the Company is under option or has been agreed conditionally or unconditionally to be put under option.

(i) The existing issued Ordinary Shares are, and the Placing Shares will be, in registered form. Otherwise than pursuant to the Placing, none of the Ordinary Shares have been sold or are available in whole or in part to the public in conjunction with the application for Admission.

(j) The amount payable on application and allotment of each Placing Share is [no.]p of which [no.]p is payable by way of premium.

(k) Pursuant to a resolution of the Board dated 16 August 2000, it was resolved that the Ordinary Shares should become participating securities as defined in the Uncertificated Securities Regulations 1995.

(l) There are no listed or unlisted convertible or other securities issued by the Company not representing share capital, other than the options referred to in paragraph 5 below.

3. Memorandum and Articles of Association

The Memorandum of Association of the Company provide that the Company's principal object is to carry on business as a general commercial company. The objects of the Company are set out in full in Clause 4 of the Memorandum of Association.

The Articles of Association of the Company contain provisions, inter alia, to the following effect:

(a) *Voting Rights*

Subject to any special terms as to voting upon which any share may be issued or may for the time being be held or any suspension or abrogation of voting rights pursuant to the Articles, at a general meeting every member present in person shall upon a show of hands have one vote and every member present in person or by proxy shall upon a poll have one vote for every Ordinary Share of which he is the holder.

(b) *Dividends*

Subject to the provisions of the Act, the Company may by ordinary resolution declare dividends to be paid to the members or persons entitled by transmission to Ordinary Shares, but no dividend shall exceed the amount recommended by the Directors. Subject to the provisions of the Act, the Directors may declare or pay such interim dividends (including any dividend payable at a fixed rate) as appear to them to be justified by the profits of the Company available for distribution. No dividend or other monies payable in respect of a share shall bear interest against the Company.

Except as otherwise provided by the rights attaching to the Ordinary Shares, all dividends shall be declared and paid according to the amount paid up on the Ordinary Shares in respect of which the dividend is paid, but no amount paid up on a share in advance of a call shall be treated as paid up on the Ordinary Shares and, subject to aforesaid, all dividends shall be apportioned and paid proportionally to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. All dividends unclaimed for a period of twelve years from the date of declaration shall be forfeited and revert to the Company.

Subject to the provisions of the Articles, the Directors may with the authority of an ordinary resolution of the members, offer the holders of the Ordinary Shares the rights to elect to receive Ordinary Shares credited as fully paid instead of cash in respect of such dividends. There is no fixed date on which an entitlement to dividends arises. A general meeting declaring dividends may, upon the recommendation of the Directors, direct that the payment of any dividend declared be satisfied wholly or partly by the distribution of specific assets.

(c) *Distribution of assets on a winding up*

On a voluntary winding-up of the Company, the liquidator may, with the sanction of an extraordinary resolution of the members and subject to obtaining any other sanction required by law, divide among the members in specie the whole or any part of the assets of the Company and may for that purpose value any assets and determine how such division shall be carried out as between the members of different classes of shares. The liquidator may with the like sanction vest the whole or any part of the said assets in trustees upon such trusts for the benefit of the members as he may with the like sanction determine, but no member shall be compelled to accept any assets upon which there is a liability.

(d) *Transfer of Shares*

Each member may transfer all or any of his Ordinary Shares by a written instrument or transfer in any usual form or in any form approved by the Directors. The instrument of transfer of an Ordinary Shares shall be executed by or on behalf of the transferor and, except in the case of a fully paid Ordinary Share, by or on behalf of the transferee. The Board may refuse to register the transfer of a share which is not fully paid, but shall not be bound to specify the grounds on which such registration is refused provided that such refusal does not prevent dealing taking place on an open market. The Directors may also refuse to register a transfer:

(a) of an Ordinary Shares over which the Company has a lien;

(b) which is in respect of more than one class of shares;

(c) which is in favour of more than four joint holders as transferees;

(d) unless it is lodged at the registered office of the Company or such place as the Directors may determine accompanied by the relevant Share Certificate(s) and such other evidence as the Directors may require to prove the title of the transferor.

The registration of transfers may be suspended at such times and for such periods (not exceeding 30 days in any year) as the Directors may from time to time determine.

(e) *Variation of Rights*

Subject to the provisions of the Act, all or any of the rights or privileges attached to the Ordinary Shares, whether or not the Company is being wound up, may only be modified, varied, extended, abrogated or surrendered with the written consent of the holders of issued Ordinary Shares. The issue of shares ranking pari passu with or subsequent to the Ordinary Shares shall not, unless otherwise expressly provided by the Articles, be deemed to be a variation of the rights or such Ordinary Shares.

4. Interests of Directors and Others

(a) The interests of the Directors and their immediate families and of persons connected with them within the meaning of Section 346 of the Act in the share capital of the Company as at the date of this document all of which are beneficial (which have been notified to the Company pursuant to Section 324 of the Act and are required to be entered in the Register of Directors' interests maintained under the provisions of Section 325 of the Act) or which could, with reasonable diligence, be ascertained by the Directors and as they are expected to be immediately following completion of the Placing are as follows:

Name	*Number of Ordinary Shares before the Placing*	*Percentage of issued share capital before the Placing*	*Percentage of issued share capital after the Placing*
L Burnham	Nil	Nil	Nil
S Buswell	85,092	17.0	9.72
M Pike	85,092	17.0	9.72
R Pike	85,092	17.0	9.72
B Welck	5,105	1.0	0.58
S Healey	85,092	17.0	9.72

(b) Save as disclosed in this paragraph 4, no Director nor any member of their respective immediate families, nor any person connected with them within the meaning of Section 346 of the Act, has a beneficial or non-beneficial interest in any share capital of the Company.

(c) No loan or guarantee has been granted or provided by the Company to any Director or any person connected with them.

(d) The Directors whose names appear in the Section entitled "Directors" in Part I of this document, have been appointed to the offices set out against their respective names.

(i) R Pike has been appointed as non-executive Chairman of the Company for an annual fee of £12,000. The terms of his engagement entitle him to sit on the Audit, Nomination and Remuneration Committees of the Company. His appointment is for an initial period of twelve months and will continue thereafter on three months' notice.

(ii) M Pike has entered into a service contract with Stilo Technology Limited which provides for him to act as a Director of the Company at a salary of £78,000 per annum and which continues unless terminated by either party giving not less than 12 months notice to the other. The salary will be reviewed by the Board annually.

(iii) S Healey has entered into a service contract with Stilo Technology Limited which provides for him to act as a Director of the Company at a salary of £70,000 per annum and which continues unless terminated by either party giving not less than 12 months notice to the other. The salary will be reviewed by the Board annually.

(iv) S Buswell has entered into a service contract with Stilo Technology Limited which provides for him to act as a Director of the Company at a salary of £72,000 per annum and which continues unless terminated by either party giving not less than 12 months notice to the other. The salary will be reviewed by the Board annually.

(v) L Burham has entered into a service contract with Stilo Technology Limited which provides for him to act as a Director of the Company at a salary of £78,000, increasing to £● on 28 August 2000 per annum. The Agreement continues unless terminated by the other party giving not less than 12 months notice to the other. The salary will be reviewed by the Board annually.

(vi) B Welck has been appointed as a non-executive Director of the Company for an annual fee of £12,000. The terms of his engagement entitle him to sit on the Audit, Nomination and Remuneration Committees of the Company. His appointment is for an initial period of twelve months and will continue thereafter on three months' notice.

(vii) In addition to the arrangements set out in (i) to (vi) above, the following Directors are entitled to receive performance related bonuses up to the maximum amounts shown respectively:

M Pike	£22,000
S Healey	£10,000
S Buswell	£18,000
L Burnham	£22,000

(e) The aggregate emoluments (including benefits in kind and pension contributions) of the Directors for the 17 months ended 31 December 1999 was £158,000 and in respect of the current financial year ending 31 December 2000, is estimated to amount to £335,000 under the arrangements in force at the date hereof.

(f) Save as disclosed in this document, none of the Directors has or has had any interest in transactions effected by the Company or its subsidiary since its incorporation which are or were unusual in their nature or conditions or which are or were significant to the business of the Company and which remains in any respect outstanding or unperformed.

(g) The Directors are aware of the following interest (in addition to those set out in paragraph 4(a)) above which will represent more than 3 per cent of the Company following the Placing:

	At Present		*After the Placing*	
Shareholder	*Number of Ordinary Shares*	*Percentage of issued share capital*	*Number of Ordinary Shares*	*Percentage of issued share capital*
3i	148,060	29.6	7,106,880	16.9

Save as disclosed above in this paragraph 4(g), the Company is not aware of any person who, immediately following the Placing, will, directly or indirectly, be interested in 3 per cent or more of the capital of the Company, or who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

(h) The directorships and partnerships held by each of the Directors over the five years preceding the date of this document other than in the Company and its subsidiary are as follows:

	Current Directorships/ Partnerships	*Past Directorships/ Partnerships*
L Burnham	World Library Limited Multi Media Library Limited	—
S Buswell	Record Expand Limited	—
S Healey	—	—
M Pike	—	—
R Pike	—	KCL Enterprises Limited
B Welck	Service Power Technologies plc Bow Finance Limited Bow Property Finance Limited New Era Investments Limited New Era Management Limited NSC Pharma Limited Offeld Developments Limited Room Service (UK) Limited Totalace Limited	A.D.D Computer Spares Limited Add Management Systems Limited Applied Digital Devices Limited Chilla Limited NSC International Limited* Oakleigh Property Management Limited Priorunit Limited SPC International (Engineering) Limited SPC International (Food) Limited SPC International Limited SPC Plus Limited Widney PLC

*NSC International Limited went into voluntary liquidation on 2 July 1998. The Statement of Affairs states an estimated deficiency of £751,726. Barry Welck resigned as a director of the company on 11 January 1998.

(i) Save as disclosed in paragraph 4(h) above, no Director:

(i) has any unspent convictions in relation to indictable offences; or

(ii) has ever been declared bankrupt or entered into an individual voluntary arrangement; or

(iii) has been a director of any company at the time of or within 12 months preceding the date of its receivership, compulsory liquidation, creditors liquidation, administration, company voluntary arrangement or any composition or any arrangement with its creditors generally or any class of its creditors; or

(iv) has been a partner of any partnership which has been placed into compulsory liquidation or administration or entered into a partnership voluntary arrangement at the time of or within 12 months preceding such an event and there have been no receiverships of any asset of any partnership of which the Director was a partner at the time of or within 12 months preceding such an event; or

(v) has been publicly criticised by any statutory or regulatory authority or been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

(j) Upon Admission, L Burnham will be granted options over 724,000 shares under the terms of the share option schemes exercisable at a price of 50p per share. Exercise of the options will not be subject to the achievement of performance conditions, and the options will not lapse upon termination of his employment.

5. Proposed Share Option Schemes

(i) At the Extraordinary General Meeting held on 16 August 2000, the shareholders of the Company resolved, subject to Admission, to adopt the Stilo International Plc Approved Share Option Scheme ("the Approved Scheme") the Stilo International Plc Unapproved Share Option Scheme 2000 ("the Unapproved Scheme"), and the Stilo International Plc Enterprise Management Incentive Scheme 2000 ("the EMI Scheme").

The Approved Scheme will be submitted for approval by the Inland Revenue under schedule 9 of the Income and Corporation Taxes Act 19888 ("Schedule 9") and may have to be amended to secure such approval of the Inland Revenue. No options can be granted under the Approved Scheme until the Inland Revenue has given its approval.

A summary of the rules of the Approved Scheme is as follows:

Grant of Options

Options can be granted at the discretion of the Directors to eligible employees within 42 days after the announcement of the Company's annual or half yearly results, or within 42 days of the date of the scheme being approved by the Inland Revenue, or within 14 days immediately after a person first becomes an eligible employee.

In addition, no options may be granted to any person at any time when such person has or has had within the previous twelve months a material interest in a close company being either the Company or a company which has control of the Company. A material interest for these purposes is as defined in Section 187 (30 of the Taxes Act 1988 ("Material Interest").

Performance Conditions

The exercise of options may be subject to performance conditions set by the Remuneration Committee. Such performance conditions may be changed by the Remuneration Committee for options to be granted in the future to another objective criterion. Where options have already been granted, performance conditions may only be amended in appropriate circumstances subject to Inland Revenue approval and so that the performance conditions afford a more effective incentive but the amended conditions should not be more difficult to satisfy than the performance conditions set at the time of grant.

Eligible Employees

Options can be granted to directors of the Group who are required to work under their contracts of employment for at least 25 hours per week, and to any other employee. Options cannot be granted to any employee of the Group within two years preceding any retirement date stipulated in his contract of employment.

Subscription Price

The subscription price payable on the exercise of options is market value of the ordinary shares on the date of grant. The market value is the price shown in the Financial Times on the date of grant or such other value as may be agreed with the Inland Revenue Shares Valuation Division.

Limitations

The number of Ordinary Shares that can be the subject of options granted under the Approved Scheme, the Unapproved Scheme, the EMI Scheme and any other share scheme within the preceding ten years cannot exceed 15% of the issued ordinary share capital of the Company for the time being.

The maximum value of options, based on the market price of an Ordinary Share at the date of grant, that can be granted to any employee under the Approved Scheme or any other share option scheme (excluding any SAYE scheme adopted by the Company or any Associated Company) approved under Schedule 9 cannot exceed £30,000. Furthermore, options cannot be granted to any employee under the Approved Scheme, the Unapproved Scheme, or any other share scheme if the value of options granted under all schemes would exceed eight times the employee's total annual emoluments.

Exercise of Options

Options can normally only be exercised between the third and tenth anniversaries of the date of grant. Options may, however, be exercised earlier, subject to the performance conditions having been satisfied, if the option holder ceases to be an eligible employee by reason of injury, ill-health, disability, redundancy, retirement on or after the expected retirement date, or death, whereupon the option holder has a period of six months following such event to exercise the option. If it is not so exercised, the option will lapse. If the eligible employee leaves the employment of the Company or any associated company for any other reason, then the option shall lapse.

The rules also provide for the early exercise of options, again provided that the performance conditions have been satisfied, in the event of a change of control of the Company, a demerger, a reconstruction scheme under Section 425 of the Companies Act 1985 (the "Act"), where a person becomes bound or entitled under Section 428-430F of the Act to acquire the remaining issued share capital of the Company or where a resolution for the voluntary winding up of the Company is passed. The rules also contain provision for the roll-over of options in the event of a change of control with the agreement of the acquiring company.

Adjustment of Options

In the event of any variation in the share capital of the Company by way of capitalisation, rights issue, consolidation, sub-division, reduction or otherwise, the Company can, subject to written confirmation of the auditors and Inland Revenue approval, adjust the number of Ordinary Shares, the subject of options and the subscription price.

Scheme Amendment

The Approved Scheme will be administered by the Directors, who have the power to alter its rules subject to Inland Revenue approval in all cases. However, amendments cannot be made which detrimentally affect option holders without consent of option holders who, assuming they exercise their options in full, would become entitled to not less than 3/4 of the nominal number of Ordinary Shares being the subject of such options. The Board must also obtain prior approval of the Company in general meeting where a variation seeks to extend the class of persons eligible for the grant of options, or alter to the advantage of option holders rules relating to the grant of options, scheme limits, the adjustment of options, and the subscription price except for minor amendments to benefit the administration of the Approved Scheme, to comply with or take account of any proposed or existing legislation or law or to obtain or maintain favourable tax, exchange controller regulatory treatment for option holders or the Company.

No options can be granted after the tenth anniversary of the date of adoption.

A summary of the Rules of the Unapproved Scheme are as follows:

The rules of the Unapproved Scheme are almost identical to the rules of the Approved Scheme save for the following principal differences:

(i) there are no references to Inland Revenue approval in the rules so, for example, an alteration to the rules of the Unapproved Scheme would not require Inland Revenue approval;

(ii) directors are eligible to participate in the Unapproved Scheme provided that they devote substantially the whole of their working time to the business of the Company;

(iii) the market value of a share does not have to be agreed with the Inland Revenue Shares Valuation Division;

(iv) the provisions of paragraph 8 of Schedule 9 do not apply and;

(v) the limit of £30,000 on the value of benefits that can be granted to Eligible Employees does not apply and;

(vi) there are no restrictions on the granting of options to persons with a material interest.

EMI Scheme

Eligibility

The Company will be able to choose up to fifteen key employees to participate in the EMI Scheme at any given time, each of whom must work at least 25 hours per week for the Company or its subsidiaries or, if less than 25 hours per week, for at least 75 per cent. of his or her working time. Qualifying subsidiaries are those subsidiaries over which the Company has at least 75 per cent. direct or indirect ownership and voting control. Any employee who holds a material interest (30 per cent. or more) in the Company will not be eligible to participate, nor will an employee who holds outstanding options under the Approved Scheme. Participation will be at the discretion of the Board, which may from time to time offer to participants the opportunity to enter into option agreements.

Option Agreements

Options may be granted under the EMI Scheme ("EMI Options") by the Company entering into a written agreement ("an Option Agreement") with the participant. Such agreements may be entered into under the same timing as options may be granted under the Approved Scheme.

Acquisition price

The price at which participants may subscribe for shares pursuant to EMI Options normally will be at their market value at the time options are granted to them as agreed with the Inland Revenue, except in exceptional circumstances where the Board may agree to grant options at a discount to current market value.

Exercise of Options

(i) The Board will determine the earliest possible exercise date and whether any performance or other conditions must first be satisfied before an EMI Option first becomes exercisable, and these will become terms of the Option Agreement. Once it becomes exercisable, an EMI Option may only be exercised after the EMI legislation becomes effective and before the tenth anniversary from the date upon which it is granted.

(ii) While EMI Options will usually lapse upon the holder ceasing to be employed by the Company or a qualifying subsidiary, in certain exceptional circumstances (such as cessation due to redundancy, retirement, injury or disability, the option holder's employing or contracting company ceasing to be a qualifying subsidiary, as a result of the transfer of the option holder's services to an undertaking other than the Company or a qualifying subsidiary pursuant to a business transfer, of if the Board exercises its discretion to permit exercise) an EMI Option may nevertheless be exercised immediately upon such cessation and remains exercisable until twelve months after such cessation, and thereafter the EMI Options will lapse. The above is substantially consistent with the treatment of leaving employees under the provisions of the Approved Scheme.

(iii) EMI Options may be exercised during the six months period following the takeover, amalgamation, reconstruction or voluntary winding up of the Company, and thereafter they will lapse.

Limits

(i) No option may be granted to the extent that the aggregate number of shares issued or liable to be issued pursuant to options granted in aggregate with those granted under the Approved Scheme and the Unapproved Scheme would then exceed such number of shares as represents 15 per cent. of the then issued ordinary share capital of the Company.

(ii) No individual participant may hold unexercised EMI Options to the extent that the aggregate market value of the shares as at the respective dates of grant of the EMI Options would exceed £100,000. EMI Options may not be granted to any individual participant within any three year period to the extent that the market value of the shares exceeds £100,000.

Variation of Capital

(i) Option agreements will provide that, in the event of any variation or increase in the Company's share capital by way of capitalisation, rights issue, sub-division, consolidation or reduction, the number of shares subject to any EMI Option and the exercise price may be adjusted in such way as the auditors of the Company certify in writing to be fair and reasonable.

(ii) No such adjustment may increase the aggregate option price nor reduce the exercise price below the nominal value of a share.

Alterations to the Scheme

The Board has the power to amend the EMI Scheme but no amendments may be made except with the prior sanction of the Company in general meeting, in relation to (*inter alia*):

- eligibility for participation;
- the determination of the option price;
- the timing of grants;
- rights of option holders on a takeover or liquidation of the Company;
- the adjustment of options;
- limitations on the granting of options;
- exercise dates;
- takeovers and liquidation;
- the alteration provisions themselves.

In addition, no alteration shall be effective to alter materially any of the subsisting rights of option holders.

Termination

The EMI Scheme may be terminated at any time by resolution of the Board. The EMI Scheme will in any event terminate on the tenth anniversary of its adoption. Termination will not affect the outstanding rights of any participant.

6. Material contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company or its subsidiary within the two years immediately preceding the date of this document and are, or may be material:

(a) Placing Agreement

An Agreement dated 16 August 2000 between (1) the Company, (2) the Directors, (3) ARMCF and (4) Teather & Greenwood ("the Placing Agreement") whereby Teather & Greenwood have agreed to use their reasonable endeavours, as agent for the Company, to procure subscribers for the Placing Shares at 50p per share. The Placing Agreement is conditional, *inter alia*, on Admission becoming effective. Under the Agreement Teather & Greenwood are entitled to a fee of between £30,000 (plus VAT) rising to a maximum of £50,000 (plus VAT) depending on the amount of funds raised and a commission of up to 3% on the Placing Shares (in respect of Placing Shares agreed to be taken up by placees introduced by Teather & Greenwood) and ARMCF is entitled to a fee of £75,000 (plus VAT) and a commission of 2% on the Placing Shares agreed to be taken up by placees introduced by ARMCF. The Company has agreed to pay all other costs and expenses of and incidental to the Placing.

The Placing Agreement contains warranties given by the Company and the Directors in favour of ARMCF and Teather & Greenwood, and indemnities by the Company in favour of Teather & Greenwood and ARMCF. The Placing Agreement also contains provisions entitling Teather & Greenwood or ARMCF to terminate the Placing Agreement prior to Admission becoming effective in certain circumstances.

Each of the Directors has covenanted with ARMCF and Teather & Greenwood not to dispose of any Ordinary Shares until publication of the interim results of the Company for the 6 months ended 30 June 2001 without their prior consent, except in limited circumstances.

(b) Nominated Adviser Agreement

A Nominated Adviser Agreement dated 16 August 2000 between (1) the Company, (2) ARMCF and (3) the Directors relating to the provision by ARMCF of the services of nominated adviser for an annual fee of £25,000 (plus VAT). The Agreement is terminable on not less than 90 days' notice. In certain circumstances the Agreement may be terminated by the Company or ARMCF immediately without notice, such notice not to expire before the date falling 12 months after Admission. Under this Agreement the Company and the Directors have given certain undertakings and the Company has given indemnities to ARMCF.

(c) Nominated Broker Agreement

A Nominated Broker Agreement dated 16 August 2000 between (1) the Company, (2) Teather & Greenwood and (3) the Directors relating to the provision by Teather & Greenwood of the services of a nominated broker for an annual fee of £25,000 (plus VAT). The Agreement is terminable on not less than three months' notice such notice not to expire before the date falling twelve months after the date of the Agreement. Under the Nominated Broker Agreement, the Company and the Directors have given certain undertakings and the Company has given indemnities to Teather & Greenwood. In certain circumstances the Agreement may be terminated by the Company or Teather & Greenwood immediately without notice.

(d) The agreements referred to in paragraph 4(d) of this Part IV

(e) Share Sale Agreement dated 16 August 2000 made between the Company and M Pike and others (the "vendors") whereby the vendors sold to the Company their shares in Stilo Technology Limited in consideration of the issue to them, credited as fully paid, of 351,237 Ordinary Shares of 10p and 147,763 "A" Ordinary Shares of 10p in the Company.

7. Working capital

In the opinion of the Directors, having made due and careful enquiry, the working capital available to the Company will, on Admission and receipt of the proceeds of the Placing, be sufficient for its present requirements, that is, for at least the next twelve months.

8. Properties

The head office of the Company is located at Empire House, Mount Stuart Square, Cardiff CF10 6DN. The Company has a lease over these premises for a period until March 2001 at a current annual rent of £5,000.

9. Litigation

Neither the Company nor its subsidiary has been engaged in, or is it currently engaged in, any litigation or arbitration which has or may have a significant effect on the financial position of the Company or its subsidiary, so far as the Directors are aware, there are no such proceedings pending or threatened against the Company or its subsidiary.

10. General

(a) The accounting reference date of the Company is 31 December.

(b) The minimum amount which, in the opinion of the Directors, must be raised by the Company under the Placing to provide the sums required in respect of the matters specified in paragraph 21 of Schedule 1 to the POS Regulations is £8,500,000 which will be applied as follows:

(i) approximately £500,000 in respect of the expenses of the Placing; and

(ii) the balance of the proceeds of the Placing receivable by the Company after payment of the sums described above will be used as working capital.

(c) For the purposes of paragraph 25 of Part IV of Schedule 1 to the POS Regulations, the subscription lists for the Placing will open at 10.00 a.m. on 30 August 2000 and may be closed at any time thereafter but not later than ● September 2000.

(d) ARM Corporate Finance Limited has given and not withdrawn its written consent to the inclusion of its name and the reference to it in the form and context in which they appear.

(e) HLB Kidsons has given and not withdrawn its written consent to the inclusion of its reports on the Company in the form set out in Part II of this document and the reference to such report in the form and context in which it appears and accept responsibility for such report in accordance with paragraph 45(1)(b)(iii) of Schedule 1 to the POS Regulations.

(f) Teather & Greenwood has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in it appears.

(g) Charteris Limited has given and not withdrawn its written consent to the inclusion of its report in the form set out in Part III of this document and the reference to such report in the form and context in which it appears.

(h) The total costs and expenses payable by the Company in connection with the Placing (including professional fees, commissions, the costs of printing and the fees payable to the registrars) are estimated to amount to approximately £500,000 excluding VAT. The net proceeds payable to the Company are expected to amount to £8,500,000.

(i) There are no amounts to be provided otherwise than from the proceeds of the Placing in respect of the matters specified in paragraphs 21(a)(i) to (iv) of Schedule 1 of the POS Regulations.

(j) The financial information for the relevant accounting period set out in the Accountants' Report in Part II concerning the Company does not constitute statutory accounts of the Company within the meaning of section 240 of the Act.

(k) There has been no significant change in the financial position or prospects of the Company since 31 December 1999, the date to which the latest audited accounts were produced.

(l) Other than as provided in this document there are no patents or other intellectual property rights, licenses or particular contracts with are of fundamental importance to the Company's business.

(m) By a resolution of the Board dated 16 August 2000, the Company adopted a code for share dealings by Directors and employees as required by rule 16.12 of the AIM Rules.

(n) There are no specified dates on which entitlement to dividends payable by the Company arise.

(o) The arrangements for payment of the Placing Shares together with the arrangements relating to monies received from potential placees and for the return of any monies of potential placees where their applications are not accepted and the timetable for the return of such monies, are set out in the placing letters, together with the timetable and arrangements for the delivery of Placing Shares. Pending allotment, interest accruing on application monies will be retained by the Company.

(p) The Ordinary Shares are being issued for the purposes described in this document.

(q) On 2 May 2000 ARM Corporate Finance Limited subscribed in cash for 19 Ordinary Shares at a price of £8,276.05 per share.

12. Prospectus available free of charge

Copies of this document will be available free of charge during normal business hours on any weekday (Saturdays and public holidays excepted) at the offices of Howard Kennedy 19 Cavendish Square London W1A 2AW for a period of 14 days following Admission

16 August 2000

Printed by Park Communications, London 05/10708