Annual Report and Accounts
for the year ended 31 December 2009

stilo
international plc

CONTENTS

CHAIRMAN'S STATEMENT

I am pleased to announce Stilo's results for the twelve months ended 31 December 2009 and to report upon the progress made by the Group during the year.

Following eight successive years of steady improvement, 2009 proved to be a challenging year for Stilo. Faced with the global economic downturn, customers generally cut back on their investments in new projects, resulting in a significant downturn in sales revenues and profitability for our Company.

However, during the course of the year we undertook appropriate restructuring and cost saving measures, continued to invest in new product developments and managed our cash situation accordingly. Our financial performance improved significantly in the second half of the year as a consequence of the cost saving measures that were implemented.

I am very grateful for the constructive co-operation of our employees during this period, and am pleased to report that we emerge from 2009 better equipped to address the significant business opportunities that lie ahead of us.

Strategy, Products and Services

We operate two distinct and complementary business divisions, providing software and professional services to customers across a broad range of industry sectors, including Aerospace and Defence, Engineering, Manufacturing, High Tech, Publishing and Government. Based out of offices in the UK and Canada, we serve customers in North America, Europe, Japan and Australasia.

XML Content Processing

Our XML Content Processing division is focussed on the provision of content conversion technologies and related services, enabling organisations to aggregate content from disparate sources and publish complex information to the web and other media. Our customers publish aircraft and military equipment technical manuals, automotive repair data, product data sheets, online news and regulatory reports. They include Boeing, Airbus, Autozone, Volvo, British Library, Wolters Kluwer, Japan Patent Office and the European Parliament.

We have pioneered content conversion solutions for many years, through ongoing investments in OmniMark, our high-performance content processing platform. OmniMark has been deployed by customers around the world and is a robust, well-proven technology that underpins many mission-critical publishing applications.

Utilising OmniMark, and building upon our extensive experience solving some of the world's most demanding content conversion problems, we have recently undertaken the development of Stilo Migrate, the world's first on-demand content migration service. Accessible globally, 24/7, users are able to upload source documents over the internet and convert content to target XML formats, on a pay-as-you-use basis. Early users of the system are publishers of technical documentation and include STMicroelectronics and Numonyx, leading semiconductor manufacturers. Migrate version 2 is due to be released in 2010, and will address a broader market through its ability to handle a wider range of target XML formats, including EPUB – one of the emergent standards for the publishing of e-books.

Through the combination of OmniMark, Migrate and our expert professional services, we are able to offer our customers world-leading content conversion solutions to support their digital publishing applications. Migrate, in particular, presents us with the opportunity of achieving highly-scalable business growth and improved profitability in future years.

Solutions for SAP

In the UK we operate a team of highly experienced PLM (Product Lifecycle Management) consultants, specialising in the provision of services and software that address particular problems faced by manufacturing and engineering companies using SAP enterprise resource planning systems. We help them better manage and integrate their business processes and workflow, tracking product information from initial design through to manufacture, delivery and invoice. Our customers include AgustaWestland, BAe Insyte, Waters Corporation and EADS.

In the fourth quarter of 2009, we announced the release of the Stilo PCM (Product Change Management) suite of software. The initial market response has been very positive and in 2010 we will be seeking to market the software into Germany and the USA through the appointment of value added resellers. It is our intention to obtain SAP certification of the PCM software during 2010, and this will help significantly to enhance our global sales efforts through participation in SAP Software Partner marketing programmes.

The international market opportunity for the sale of the Stilo PCM suite is very significant, with over 4,000 manufacturing and engineering companies using SAP in the USA and Germany. Successful exploitation of this opportunity will directly impact Stilo's future profitability.

Across both business divisions, it is the Board's primary focus to increase profitability through the sales of software and online services, with professional services playing a necessary supporting role in the achievement of this key objective.

Operations

As at 31 December 2009, the Group employed 21 employees, with 11 located in North America and 10 in Europe. Additionally, extensive use is made of contractors in our professional services and product development activities.

The XML content processing division has development and professional services staff centred in Canada, where the professional services team addresses particularly the requirements of North American customers. Sales activities are handled out of both the UK and Canadian offices.

The Solutions for SAP division is based in the UK, focussed primarily upon sales to UK and European customers.

Both business divisions are served by central marketing, finance and corporate functions based in the UK.

Results

In 2009 the results show an operating loss of £380,000 (2008: operating profit £331,000). There was a loss from continuing operations after taxation of £457,000 (2008: profit of £388,000).

The operating loss included exchange rate losses of £84,000 (2008: exchange gains £76,000) and exceptional items of £88,000. The exceptional items relate to staff layoffs which were a necessary part of our 2009 cost reduction measures.

Total sales revenues for the period decreased by 33% to £2,071,000 (2008: £3,086,000). Administrative expenses decreased by 9% in the year to £2,042,000 (2008: £2,244,000).

The reduction in sales revenues was entirely due to a reduction in professional services undertakings across both business divisions, where we experienced projects being postponed or cancelled against a backdrop of general budget cuts. Software sales and associated maintenance revenues remained steady during the period.

We undertook various cost saving measures to reduce overheads, including many staff agreeing to work a four day week in the latter half of the year, and this measure is set to continue until such a time as sales recover.

The Group had a cash balance of £436,000 as at 31 December 2009 (31 December 2008: £546,000). Notwithstanding the significant reduction in sales revenues, through careful cost management and the reduced use of contract labour, we were able to maintain our cash reserves at a satisfactory level.

The accompanying results for the year ended 31 December 2009 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and now required for AIM companies. The financial statements of the Company have been presented under IFRS in this report and accounts for the first time.

Development

We continue to regard the development of intellectual property as essential for improving the long-term profitability of the Company and generate lasting shareholder value.

In the XML Content Processing division, all product developments, including OmniMark, Migrate, and JETView, were in 2009 consolidated in Canada under a newly appointed development manager, providing a much more cost-effective and productive development capability.

Development of the Stilo Product Change Management Suite, is undertaken in the UK by our SAP consulting team, driven primarily by new professional service engagements with our customers.

Research and development expenditure for the year, excluding costs capitalised, was £385,000 (2008: £311,000).

Outlook

The general economic outlook remains uncertain, and accordingly the Board anticipates modest sales growth in 2010. However, we have reduced our ongoing cost base significantly and are in a position to focus upon improving profitability through the sales of recently announced software and online services.

Early market indications provide us with guarded optimism that business opportunities are beginning to pick up again, and given our leading technology and specialist expertise, we are well placed to address them.

Barry Welck
Chairman

16 March 2010

DIRECTORS' REPORT

The Directors present their report together with the audited accounts of the Group and the Company for the year ended 31 December 2009.

Principal activity

The principal activity of the Group is the provision of specialist software and professional services to customers across a broad range of industry sectors. There are two business divisions, XML Content Processing and Solutions for SAP.

Business Review, Risk and Key Performance Indicators

In addition to the monthly management accounts and information that are produced and monitored against the Group's plan and the previous year's performance, the Board uses Key Performance Indicators (KPI's) in the management of the key risks of the business and as a measure of the business efficiencies of the Group. The KPI's cover the following:

- Sales performance, including monitoring current and forecast sales against plans and review of sales pipeline. Sales performance is reviewed by business segment and geographically. A detailed turnover and segmental analysis is contained in Note 2 on pages 25-26. Commentary on the financial performance of the company is given in the Chairman's Statement.
- Receivables, including ageing, debtor day trends and cash collection. Further information about receivables is given in Note 12 on page 32. Debtor days at 31 December 2009 were 73 days (2008: 83 days). Whilst outside of contractual credit terms, the directors consider this to be reasonable in the current economic climate. Overdue amounts are closely monitored.
- Human resources KPI's, employee numbers, including added value, professional staff utilisation rates and health and safety monitors. Staff information is included in Note 3 on pages 26-27. Employees remain committed to the company and have been supportive of the changes which were required during the year.
- Costs and overheads, including monitoring variable costs such as sub-contractors, reviewing costs against plan, and forecasting short term expected variations in overheads. As set out in the Chairman's Statement various cost reductions were made during the year in order to maximise efficiency.
- Development targets and deadlines are closely monitored and product development is progressing broadly on schedule.

A detailed review of activities and developments in the Group is contained in the Chairman's Statement on pages 2 to 4.

Financial Risk Management and Exposure

Financial risk management and exposure are considered further in Note 21 on pages 36-37.

The Board considers the principal risks of the business are as follows:

Market Conditions – close working relations are maintained with both the Group's suppliers and customers in order to monitor market and technology changes. The directors continually monitor other markets and products that are complementary to the company's business model and dynamics and that can be added to the Group's sales portfolio. Economic and interest rate changes are also monitored in relation to the impact they will have on the market conditions for the Group.

Product risk – in order to mitigate against the risk of technological obsolescence, the Group continues to innovate with releases of new products and the frequent updating of existing products. We endeavour to work closely with customers in our product development efforts, to help ensure their relevance and acceptability in our target markets.

Receivables and credit risk – the principal credit risk arises from trade receivables. Credit limits and credit terms are set for customers based upon payment history and references. Credit limits are reviewed regularly in conjunction with debt ageing and collection history. The directors regard the scale and spread of customers as being a safeguard against the risk of default.

Currency exposure – the Group deals in several currencies and maintains bank accounts in each currency dealt in. The Group monitors foreign currency rates and currency exposure regularly. Foreign currency hedging instruments are also reviewed as a means of reducing the effect of exchange rate fluctuations.

Results and dividends

The Group loss for the year after taxation was £457,000 (2008: profit of £388,000). The Directors do not recommend the payment of a dividend (2008: £nil). The business is a going concern and the financial statements are prepared on the going concern basis. Further information is given in Note 1 on page 19.

Future Developments

The business outlook is considered in the Chairman's Statement on pages 2 to 4.

Directors and their interests

The Directors who served during the year and their beneficial interests in the share capital of the Company are shown in the Remuneration Report on page 8.

Substantial shareholdings

At 5 March 2010 the Company had been notified of the following shareholding, other than Directors, who are interested directly or indirectly in three per cent or more of the issued share capital of the Company.

	Number of ordinary shares held	Percentage of issued ordinary share capital
Giltspur Nominees Limited	20,239,350	18.44%
Brewin Nominees Limited	10,032,425	9.14%
Pershing Nominees Limited	7,100,000	6.47%
HSDL Nominees Limited	6,232,706	5.68%
TD Waterhouse Nominees (Europe) Limited	5,251,101	4.79%
S J Buswell	4,084,416	3.72%
E R Pike	4,084,416	3.72%
S C Healey	3,384,416	3.08%

Directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

UK Company law requires the directors to prepare Group and Company Financial Statements for each financial year. Under that law the directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected to prepare the company financial statements in accordance with IFRS as adopted by the EU.

The group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the group; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company.

In preparing each of the group and company financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;

b. make judgements and estimates that are reasonable and prudent;

c. state whether they have been prepared in accordance with IFRSs adopted by the EU;

d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Stilo International plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Political and charitable contributions

During the year the Group made donations of £150 (2008: £150) to local charities. The Group made no political donations (2008: £nil).

Research and Development

Research and development expenditure for the year, excluding costs capitalised, was £385,000 (2008: £311,000). Further information relating to research and development is contained in the Chairman's Statement on pages 2 to 4.

Payments to suppliers

The Group's policy is to pay suppliers as early as possible having regard to cash flow considerations. As at 31 December 2009 the Group's trade payables represented 27 days' purchases (2008: 42 days).

Employees

The Group is an equal opportunity employer and makes every effort to ensure disabled people are not discriminated against on the grounds of their disabilities. In the event of staff becoming disabled, every effort is made to ensure that employment continues and that appropriate training is arranged. Employees are kept informed regarding the Group's affairs and are consulted on a regular basis through meetings, wherever feasible and appropriate.

Environment

The activities of the Group do not pose environmental hazards. The Group monitors energy consumption and the Company co-operates with relevant authorities to ensure that all statutory environmental requirements are complied with.

Statement as to disclosure of information to the auditor

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the directors have confirmed that they have taken all of the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

Approved by the Directors and signed by order of the Board

Christine Moore
Company Secretary

16 March 2010

REMUNERATION REPORT

Membership

The Remuneration Committee comprises David Ashman and Barry Welck, and is chaired by Barry Welck.

Policy statement

The Remuneration Committee sets the remuneration and all other terms of employment of the executive Directors. Remuneration levels are set by reference to individual performance, experience and market conditions with a view to providing a package which is appropriate for the responsibilities involved. It is the Committee's intention to seek to align the interests of the executive Directors with those of the shareholders.

Service contracts

There are no contracts of service under which any executive Director of the Company is employed by the Company or any of its subsidiaries other than contracts expiring or determinable by the employing company within one year and without payment of predetermined compensation which exceeds more than one year's salary, benefits in kind and pension.

Directors' interests (audited)

The interests of the Directors at 31 December 2009 in the shares of the company were as follows:

	31 December 2009 Number of ordinary shares	1 January 2009 Number of ordinary shares
Executive		
L Burnham	**5,000,000**	5,000,000
Non-executive		
D Ashman	**10,900,000**	10,900,000
B H Welck	**2,125,000**	2,125,000

Share option scheme (audited)

At 31 December 2009 the following share options were held by Directors:

	1 January 2009	Number granted in the year	Number cancelled in the year	31 December 2009	Exercise price	Date from which exercisable	Expiry date
L Burnham	2,600,000	–	–	2,600,000	1.5p	30 April 2011	No expiry

The market price of the Company's shares at the end of the financial year was 1.25p and the range of the market prices during the year ended 31 December 2009 was between 1.15p and 3.125p.

Non-executive Directors

The remuneration of the non-executive Directors is considered by the executive Director. Non-executive Directors do not have contracts of service, but each current terms of appointment are for an initial period of twelve months and continue thereafter on three months' notice.

Barry Welck

Remuneration Committee Chairman

16 March 2010

DIRECTORS AND OFFICERS

A brief biography of the Group's Directors and Officers is set out below:

Barry Welck – *Non-executive Director and Chairman*
Barry was appointed as a non-executive Director of Stilo in 1998 and became Chairman in 2002. He brings a wealth of general commercial and entrepreneurial experience to the Board, gained from developing and selling his own business, working for large scale enterprises and a range of public and private sector companies which have operated in the UK and USA. He invests in early stage technology companies and is also Chairman and a founder of a substantial Charity.

Leslie Burnham – *Director and Chief Executive Officer*
Following an initial spell in corporate planning at Mobil Oil, Les has spent his entire career in the IT industry, holding a variety of sales and executive management positions at ICL, Prime Computer and Research Machines. At Research Machines he was responsible for achieving rapid sales growth from £11million to £40+ million over a four year period.

Experienced in venture capital backed technology ventures, he has successfully developed business on an international basis, particularly in North America and Europe, and founded his own company re-publishing and marketing software applications. Having joined Stilo in 1999 as Sales and Marketing Director, the company's fourth employee, he went on to become CEO and manage Stilo's IPO the following year, subsequently leading the company's acquisition and growth strategy.

Les holds a Joint Honours Degree in Mathematics/Operational Research obtained from Leeds University and attended Cranfield School of Management, one of the world's leading international business schools.

David Ashman – *Non-Executive Director*
David held various accounting positions at Unilever, Reed International, Letraset, Borg Textiles and Marley before joining Bowater Paper Group where he became Finance Director. It was there that he was a key member of the management team which carried out an MBO from Bowaters, subsequently floating the company on the London Stock Exchange and accepting a bid two years later valuing the Company at £300 million. His main focus today is investing in small, undervalued companies.

Officers:

Christine Moore – *Company Secretary and Chief Financial Officer*
Chris was appointed as Stilo's CFO and Company Secretary in October 2008. Chris qualified as a Chartered Accountant in 1992, having trained with Arthur Andersen, specialising in audit. For ten years she worked for Zimmer Ltd, an orthopaedics company with a sales turnover in excess of £100 million, in various roles including Company Secretary and Finance Director. Whilst at Zimmer she also qualified as a Chartered Company Secretary. Chris later held the position of Commercial Director at Serco Learning, a software and services company. She has recent experience in financial consultancy and project management, working on a UK and International basis.

ADVISERS

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REGISTERED NUMBER
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BROKER
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25 Luke Street
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REGISTRAR
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PXS, The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

CORPORATE GOVERNANCE

Compliance

As the Company is listed on AIM, it is not required to comply with the provisions set out in the 2008 FRC Combined Code prepared by the Committee on Corporate Governance. However, the following information is provided which describes how the Company applies the principles of corporate governance.

Directors

The Company supports the concept of an effective board leading and controlling the Company. The Board is responsible for approving company policy and strategy. It meets bi-monthly and has a schedule of matters specifically reserved to it for decision. Management supply the Board with appropriate and timely information and the Directors are free to seek any further information they consider necessary. All Directors have access to advice from the Company Secretary and independent professionals at the company's expense.

The Board consists of one executive Director, who holds a key operational position in the Company, and two non-executive Directors who bring a breadth of experience and knowledge. The current Board members are described on page 9.

The 2008 FRC Combined Code stipulates that the majority of non-executive Directors should be independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgement. The Board consider that two non-executive Directors are sufficient, given the size of the Company.

All Directors are subject to re-election every three years and, on appointment, at the first Annual General Meeting (AGM) after appointment.

Relations with shareholders

The Directors meet regularly with the Company's institutional and other major shareholders in order to communicate mutual understanding of objectives. The Company intends at its AGMs to communicate with private investors and encourage their participation.

Each year shareholders receive a full annual report and an interim report.

Audit committee

The Audit Committee comprises the non-executive Directors and meets formally twice a year and whenever it is considered appropriate. The Audit Committee is responsible for ensuring that the financial performance of the Group is properly measured and reported and for reviewing reports from the auditor relating to the Group accounts and the Group's internal control systems. The Audit Committee monitors the level of non-audit work undertaken by the auditors prior to the annual audit.

Internal controls

The Board is responsible for ensuring that the Group maintains a system of internal financial controls including suitable monitoring procedures. The objective of the system is to safeguard Group assets, ensure proper accounting records are maintained and that the financial information used within the business and for publication is reliable.

Internal financial control monitoring procedures undertaken by the Board include the review of monthly financial reports and monitoring of performance, setting of annual budgets and monthly forecasts and the prior approval of all significant expenditure.

Going concern

After making appropriate enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group accounts. Further information is given in Note 1 on page 19.

INDEPENDENT AUDITOR'S REPORT

To the Members of Stilo International plc

We have audited the group and parent company financial statements ("the financial statements") on pages 13 to 39. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As more fully explained in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on the financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and the parent's affairs as at 31 December 2009 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

ANDREW ALLCHIN *(Senior Statutory Auditor)*

For and on behalf of **BAKER TILLY UK AUDIT LLP**, *Statutory Auditor*
Chartered Accountants

Hartwell House
55 – 61 Victoria Street
Bristol BS1 6AD

16 March 2010

GROUP INCOME STATEMENT

for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Revenue – continuing operations	*2*	**2,071**	3,086
Cost of sales		**(251)**	(481)
Gross profit		**1,820**	2,605
Administrative expenses		**(2,042)**	(2,244)
Exceptional expenses	*4*	**(88)**	–
Amortisation of intangible assets		**(70)**	(30)
Operating (loss)/profit	*4*	**(380)**	331
Finance Income	*5*	**1**	2
(Loss)/profit before tax		**(379)**	333
Income tax	*6*	**(78)**	55
(Loss)/profit for the year attributable to the equity shareholders of the parent company		**(457)**	388
(Loss)/earnings per share – basic	*7*	**(0.42)p**	0.36p
(Loss)/earnings per share – diluted	*7*	**(0.42)p**	0.34p

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2009

	2009 £'000	2008 £'000
(Loss)/profit for the year	**(457)**	388
Foreign currency translation differences	**10**	64
Other comprehensive income for the year, net of tax	**10**	64
Total comprehensive income relating to the year	**(447)**	452

All comprehensive income is attributable to equity holders of the parent.

The notes on pages 19 to 39 form an integral part of these consolidated financial statements.

GROUP STATEMENT OF FINANCIAL POSITION
as at 31 December 2009

		Group		Company	
		2009	2008	**2009**	2008
	Note	**£'000**	£'000	**£'000**	£'000
Non-current assets					
Goodwill	8	**1,683**	1,683	**–**	–
Other intangible assets	9	**241**	287	**–**	–
Investments	25	**–**	–	**1,610**	1,650
Plant and equipment	10	**21**	28	**–**	–
Deferred tax assets	11	**–**	131	**–**	–
		1,945	2,129	**1,610**	1,650
Current assets					
Trade and other receivables	12	**480**	958	**–**	–
Income tax asset		**54**	51	**–**	–
Cash and cash equivalents	13	**436**	546	**–**	–
		970	1,555	**–**	–
Total Assets		**2,915**	3,684	**1,610**	1,650
Current liabilities					
Trade and other payables	14	**533**	860	**–**	–
Non-current liabilities					
Other payables	15	**6**	33	**–**	–
Total liabilities		**539**	893	**–**	–
Equity attributable to equity holders of the parent company					
Called up share capital	16	**5,618**	5,618	**5,618**	5,618
Share premium account		**5,524**	5,524	**5,524**	5,524
Merger reserve		**658**	658	**–**	–
Retained earnings		**(9,424)**	(9,009)	**(9,532)**	(9,492)
Total equity		**2,376**	2,791	**1,610**	1,650
Total Equity and Liabilities		**2,915**	3,684	**1,610**	1,650

These accounts were approved by the Board of Directors and authorised for issue on 16 March 2010 and signed on its behalf by:

Les Burnham
Chief Executive Officer

The notes on pages 19 to 39 form an integral part of these consolidated financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Retained Earnings £'000	Total £'000
Balance at 1 January 2008	5,568	5,485	658	(9,483)	2,228
Comprehensive income					
Profit for the financial year	–	–	–	388	388
Other comprehensive income					
Exchange adjustments	–	–	–	64	64
Total comprehensive income	–	–	–	452	452
Transactions with owners					
Proceeds of shares issued	50	40	–	–	90
Costs of share issue	–	(1)	–	–	(1)
Share based transactions	–	–	–	22	22
Total transactions with owners	50	39	–	22	111
Balance at 1 January 2009	5,618	5,524	658	(9,009)	2,791
Comprehensive income					
Loss for the financial year	–	–	–	(457)	(457)
Other comprehensive income					
Exchange adjustments	–	–	–	10	10
Total comprehensive income	–	–	–	(447)	(447)
Transactions with owners					
Share based transactions	–	–	–	32	32
Total Transactions with owners	–	–	–	32	32
At 31 December 2009	5,618	5,524	658	(9,424)	2,376

The notes on pages 19 to 39 form an integral part of these consolidated financial statements.

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009

	Called up share capital £'000	Share premium account £'000	Retained Earnings £'000	Total £'000
At 1 January 2008	5,568	5,485	(9,457)	1,596
Comprehensive income				
Loss for the financial year	–	–	(35)	(35)
Total comprehensive income	–	–	(35)	(35)
Transactions with owners				
Proceeds of shares issued	50	40	–	90
Costs of share issue	–	(1)	–	(1)
Total transactions with owners	50	39	–	89
At 1 January 2009	5,618	5,524	(9,492)	1,650
Comprehensive income				
Loss for the financial year	–	–	(40)	(40)
Total comprehensive income	–	–	(40)	(40)
At 31 December 2009	5,618	5,524	(9,532)	1,610

The notes on pages 19 to 39 form an integral part of these consolidated financial statements.

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2009

	Note	2009 £'000	2009 £'000	2008 £'000	2008 £'000
Cash flows from operating activities					
(Loss)/profit before taxation		**(379)**		333	
Adjustment for depreciation and amortisation		**87**		50	
Adjustment for investment income		**(1)**		(2)	
Adjustment for foreign exchange differences		**8**		45	
Adjustment for share-based payments		**32**		22	
Operating cash flows before movements in working capital		**(253)**		448	
Decrease/(increase) in trade and other receivables		**478**		(233)	
(Decrease)/increase in trade and other payables		**(354)**		95	
Cash generated from operations			**(129)**		310
Tax credit received			**52**		26
Net cash generated from operating activities			**(77)**		336
Cash flows from investing activities					
Finance income			**1**		2
Development costs capitalised			**(24)**		(93)
Purchase of plant and equipment			**(10)**		(24)
Net cash used in investing activities			**(33)**		(115)
Financing activities					
Issue of ordinary share capital			**–**		90
Share issue costs			**–**		(1)
Net cash from financing activities			**–**		89
Net (decrease)/increase in cash and cash equivalents			**(110)**		(310)
Cash and cash equivalents at beginning of year			**546**		236
Cash and cash equivalents at end of year	*13*		**436**		546

Cash and cash equivalents consist of cash on hand and balances with banks.

The notes on pages 19 to 39 form an integral part of these consolidated financial statements.

PARENT COMPANY STATEMENT OF CASH FLOWS
for the year ended 31 December 2009

	2009 £'000	2009 £'000	2008 £'000	2008 £'000
Net cash outflow from operating activities		**(40)**		(35)
Acquisitions and disposals				
Loans to subsidiary companies	**40**		(54)	
Net cash outflow from acquisitions and disposals		**40**		(54)
Net cash outflow before management of liquid resources and financing		**–**		(89)
Management of liquid resources				
Decrease in short term deposits		**–**		–
Financing				
Issue of ordinary share capital	**–**		90	
Share issue costs	**–**		(1)	
		–		89
Decrease in cash		**–**		–

The notes on pages 19 to 39 form an integral part of these consolidated financial statements.

Registered Number: 03893693

1 Accounting policies

(a) Basis of Preparation

Stilo International Plc is a public listed company, incorporated and domiciled in England. It is quoted on AIM.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and International Financial Reporting Committee ("IFRC") interpretations that are applicable to the consolidated financial statements for the year ending 31 December 2009, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared in Sterling as this represents the functional currency of the Group.

The consolidated financial statements have been prepared in accordance with IFRS including standards and interpretations issued by the International Accounting Standards Board, as adopted by the European Union. They have been prepared using the historical cost convention. The parent company accounts have also been prepared in accordance with IFRS in 2009 and the comparative information has been represented accordingly. No adjustments arose to the financial results of the parent as a result of this change.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. If in the future such estimates and assumptions, which are based on management's best judgement at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change. Where necessary, the comparatives have been reclassified or extended from the previously reported results to take into account presentational changes.

The directors consider that the going concern basis is still appropriate, despite the substantial losses incurred in the year and the reduction in cash balances. The cost base has been significantly reduced and cash flow forecasts indicate that the company will be able to meet future financing needs from future cash flows generated. Cash flow forecasts assume a modest sales growth and improved profitability. In order to conclude whether the going concern basis is appropriate for the preparation of the financial statements, management have prepared forecasts based on a flat level of trading for the current year and assuming that the historical payment profile of receivables and payables remains consistent with that experienced in recent years. They have also assumed that there are no significant changes in staffing levels. These forecasts show that the company has adequate level of cash reserves to meet its operating liabilities as and when they fall due from existing sources. A 20% reduction in revenue levels (without any adjustment in the cost base in the business) would be required before the company would need to consider alternative sources of funding. Given that this kind of drop-off in revenues is considered by management to be highly unlikely to occur and they would be able to take compensating actions with regard to the company's cost base, management have concluded that the current forecasts have adequate headroom to be able to conclude that the going concern basis remains appropriate.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the group operates.

1. Accounting policies *continued*

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

		Effective Period: Periods commencing on or after
IFRS 1	– Revised IFRS 1 First-time Adoption of IFRS	1 Jul 09
IFRS 3	– Business Combinations – Comprehensive revision on applying the acquisition method	1 Jul 09
IAS27	– Consolidated and Separate Financial Statements – Amendments arising from IFRS 3	1 Jul 09
IAS 28	– Investments in Associates – Consequential amendments arising from IFRS 3	1 Jul 09
IAS 31	– Investments in Joint Ventures – Consequential amendments arising from IFRS 3	1 Jul 09
IAS 32	– Financial Instruments: Presentation – Amendment; Classification of Rights Issues	1 Feb 10
IAS 39	– Financial Instruments: Recognition and Measurement – Amendment; Eligible hedged items	1 Jul 09
IAS 39	– Financial Instruments: Recognition and Measurement – Amendment; Embedded Derivatives	30 June 09
IFRIC 9	– Reassessment of Embedded Derivatives – Amendment; Embedded Derivatives	30 June 09
IFRIC 17	– Distributions of Non-cash Assets to Owners	1 Jul 09
IFRIC 18	– Transfers of Assets from Customers	1 Jul 09

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group, except for additional disclosures on operating segments when the relevant standard comes into effect for periods commencing on or after 1 January 2010.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The trading results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenditure are eliminated on consolidation.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date irrespective of the extent of any minority interest.

The excess of cost of acquisition over the fair values of the Group's share of identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair value of identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in the income statement.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

1. Accounting policies *continued*

(c) Revenue recognition

Revenue represents the fair value of goods and services supplied and is stated net of value added tax. Revenues from both the XML content processing and Solutions for SAP segments consist of consulting services, software and software maintenance. Consulting services revenue represents the fair value of contracts completed during the period, as well as the estimated fair value of partially completed contracts at 31 December 2009. Revenue from software sales is recognised upon shipment. Revenue from software maintenance is deferred and then recognised over the period to which it relates.

(d) Goodwill

Goodwill arising on consolidation is recorded as an intangible asset and is the surplus of the cost of acquisition over the Group's interest in the fair value of identifiable net assets acquired. Goodwill is allocated to cash generating units and is reviewed annually for impairment. Any impairment identified as a result of the review is charged in the income statement.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(e) Foreign currency translation

Transactions in currencies other than sterling, the presentational and functional currency of the Group, are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the period, except for exchange differences on non-monetary assets and liabilities, which are recognised directly in equity, where the changes in fair value are recognised directly in equity.

(f) Intangible assets other than goodwill

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. The asset is deemed to be identifiable when it is separable or when it arises from contractual or other legal rights.

Customer contracts and computer software tools that are not integral to an item of property, plant and equipment are recognised separately as an intangible asset and are carried at cost less accumulated amortisation and accumulated impairment losses. Costs include software licences and consulting costs attributable to the development, design and implementation of the computer software tools. Amortisation is calculated using the straight-line method so as to charge the cost of the contracts and computer software tools to the income statement over the estimated useful life of 5 years.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Development expenditure is capitalised as an intangible asset only if the following conditions are met:

1. an asset is created that can be identified;
2. it is probable that the asset created will generate future economic benefit;
3. it is technically and commercially feasible;
4. sufficient resources are available to complete the development;
5. the development cost of the asset can be measured reliably.

1. **Accounting policies** *continued*

Development expenditure thus capitalised is amortised over its useful life. Where the criteria are not met, development expenditure is recognised as an expense in the income statement in the period in which it is incurred.

The Group assesses at each reporting date whether an asset may be impaired. If any such indicator exists the entity tests for impairment by estimating the recoverable amount. If the recoverable amount is less than the carrying value of an asset an impairment loss is required. In addition to this, assets with indefinite lives and goodwill are tested for impairment at least annually.

(g) Plant and equipment

All plant and equipment assets are stated at cost less accumulated depreciation.

Depreciation of plant and equipment is provided to write off the cost, less residual value, on a straight line basis over the estimated useful life, as follows:

Office equipment	20%–33.3% per annum
Computer equipment	33.3% per annum
Leasehold improvements	20% per annum

Residual values, remaining useful lives and depreciation methods are reviewed annually and adjusted if appropriate.

Gains or losses on disposal are included in the income statement.

The entity assesses at each reporting date whether an asset may be impaired. If any such indicator exists the entity tests for impairment by estimating the recoverable amount. If the recoverable amount is less than the carrying value of an asset an impairment loss is required. In addition to this, assets with indefinite lives and goodwill are tested for impairment at least annually.

(h) Taxes

The tax expense represents the sum of the current tax expense and deferred tax expense.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

1. Accounting policies *continued*

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

(i) Fair values

Fair value is the amount for which a financial asset, liability or instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction. It is determined by reference to quoted market prices, adjusted for estimated transaction costs that would be incurred in an actual transaction, or by use of established estimation techniques. The fair values at the balance sheet date are approximately in line with their reported carrying values unless specifically mentioned in the notes to the financial statements.

(j) Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables do not carry any interest and are initially recognised at fair value and subsequently at amortised cost using the effective interest method less any provision for impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its trade payables. Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

(k) Share based payments

The group has applied the exemption available under IFRS 1 and elects to apply IFRS 2 only to awards of equity instruments made after 7 November 2002 that had not vested by 1 January 2006.

Options are measured at fair value at grant date using the Black-Scholes model. The fair value is expensed on a straight line basis over the vesting period, based on an estimate of the number of options that will eventually vest.

(l) Retirement benefit

Contributions to defined contribution plans are recognised as an expense as the contributions accrue.

(m) Leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease.

(n) Provisions

Provisions are recognised in the balance sheet when there is a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

1. Accounting policies *continued*

(o) Deferred income

Deferred income represents income received from clients in advance of work done, and also the element of maintenance contracts not falling due in the current year.

(p) Earnings per share

Earnings per share is calculated by dividing the earnings attributable to Ordinary shareholders by the weighted average number of Ordinary shares in issue during each of the respective periods.

(q) Critical accounting estimates and areas of judgement

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Critical judgements in applying the group's accounting policies

During the period development costs totalling £24,000 (2008: £93,000) were capitalised as the directors considered that development costs meet the criteria for recognition as intangible assets as defined in IAS 38. The recognition criteria on which this judgement was made are given in more detail in the Intangible Assets accounting policy. The capitalised development costs are being amortised over a period which is considered by management to be the minimum economic useful life of the asset.

The directors have recognised a deferred tax asset of £nil (2008: £131,000) in respect of unused tax losses. Details of the policy adopted in respect of income taxes are disclosed in more detail in the Taxes accounting policy.

The directors have considered the appropriateness of the going concern basis. This is further considered in Accounting Policies Note 1 (a).

Impairment reviews have been carried out for goodwill and other intangible assets. This is further described in Accounting Policies Note 1 (d) and Note 1 (f).

Key sources of estimation uncertainty

The directors believe that there are no key sources of estimation uncertainty in the accounts for the year.

(r) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for making strategic decisions, allocating resources and assessing performance of the operating segments, has been identified as the board of directors.

(s) Trade payables

Trade payables do not carry any interest and are stated at their fair value.

(t) Investments

Investments are stated at cost, less provision for any diminution in value.

2. Revenue and segmental analysis

Management has determined the operating segments based on the reports which the board of directors review and use to make strategic decisions. The board monitors the performance of the two main business segments on the basis of profit contribution before marketing, finance and corporate costs, which are reviewed separately, and share based transactions. The business segments are as follows:

- XML Content Processing: building high-performance content processing solutions that acquire, enrich and ultimately deliver content to enterprise information portals and supply chain partners. The XML Content Processing business segment derives its revenue from consulting services, software and software maintenance.
- Solutions for SAP: providing consulting services to users of SAP ERP systems, specialising in the disciplines of Product Lifecycle Management and Document Management. The Solutions for SAP business segment derives its revenue from consulting services, software and software maintenance.

The segmental results for the year ended 31 December 2009 are as follows:

	2009		2008	
	Revenue £'000	**Profit/(loss) £'000**	Revenue £'000	Profit/(loss) £'000
XML Content Processing	**1,389**	**145**	1,757	512
Solutions for SAP	**682**	**(33)**	1,329	330
Marketing, finance and corporate expenses	**–**	**(460)**	–	(489)
Share based transactions	**–**	**(32)**	–	(22)
Interest income	**–**	**1**	–	2
(Loss)/profit before tax	**2,071**	**(379)**	3,086	333

	2009			2008		
	Assets £'000	**Liabilities £'000**	**Net assets £'000**	Assets £'000	Liabilities £'000	Net assets £'000
XML Content Processing	**2,411**	**392**	**2,019**	2,825	625	2,200
Solutions for SAP	**504**	**122**	**382**	859	250	609
Corporate	**–**	**25**	**(25)**	–	18	(18)
	2,915	**539**	**2,376**	3,684	893	2,791

Other segmental information:

	2009			2008		
	Capital Additions £'000	**Depreciation £'000**	**Amortisation £'000**	Capital Additions £'000	Depreciation £'000	Amortisation £'000
XML Content Processing	**6**	**13**	**40**	21	14	–
Solutions for SAP	**4**	**4**	**30**	3	6	30
Total	**10**	**17**	**70**	24	20	30

2. Turnover and segmental analysis *continued*

Analysis by geographical segment

At 31 December 2009, the Group's operations are located in the UK and in Canada.

The analysis by geographical area of the Group's revenue and other segmental information is as follows:

	2009			2008		
	Revenue by destination £'000	**Non-current Assets £'000**	**Capital Expenditure £'000**	Revenue by destination £'000	Non-current Assets £'000	Capital Expenditure £'000
United Kingdom	**638**	**295**	**4**	978	472	3
Rest of Europe	**533**	**–**	**–**	869	–	–
North America	**810**	**1,650**	**6**	1,030	1,657	21
Asia	**81**	**–**	**–**	137	–	–
South America	**–**	**–**	**–**	40	–	–
Australasia	**9**	**–**	**–**	32	–	–
	2,071	**1,945**	**10**	3,086	2,129	24

Revenues of £215,000 (2008: £113,000) and £195,000 (2008: £410,000) are derived from individual external customers. Revenues from both of these customers are attributable to the UK Solutions for SAP business segment.

3. Staff costs

Employee costs, including executive Directors, during the year amount to:

	2009 £'000	2008 £'000
Wages and salaries	**1,165**	1,477
Redundancy costs	**78**	–
Social security costs	**120**	144
Pension contributions	**37**	48
Share based payments	**32**	22
	1,432	1,691

The monthly average number of persons, including executive Directors, employed by the Group in the year was:

	2009 No.	2008 No.
Research and development	**5**	3
Sales, marketing and services	**11**	16
Management and administration	**7**	6
	23	25

The number of persons employed at 31 December 2009 was 21.

3. Staff costs *continued*

Key management personnel are considered to be the directors (executive and non-executive).

Directors emoluments and those of the highest paid director are as follows:

	Directors Emoluments		Highest Paid Director	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Salary, fees and benefits in kind	**164**	192	**148**	175
Pension contributions	**7**	12	**7**	12
Social security costs	**18**	21	**18**	21
Other benefits	**4**	3	**4**	3
Share based payments	**8**	7	**8**	7
	201	235	**185**	218

One director (2008: one) was accruing a benefit under a defined contribution scheme.

4. Operating (loss)/profit

Operating (loss)/profit is stated after charging:

	2009	2008
	£'000	£'000
Depreciation of owned tangible fixed assets	**17**	20
Amortisation of intangible fixed assets	**70**	30
Operating lease rentals		
– Land and buildings	**86**	83
– Other	**4**	6
Research and development	**385**	311
Auditor's remuneration		
– Audit fees – parent company and consolidation	**15**	15
– Audit fees – subsidiaries	**20**	21
– Non audit services – parent company	**3**	4
Exceptional items – redundancy costs, including legal fees	**88**	–
Net foreign exchange losses/(gains) recognised in the income statement	**84**	(76)

The analysis of fees payable to the Group's auditors is as follows:

	2009	2008
	£'000	£'000
Baker Tilly UK Audit LLP		
Fees in respect of the parent company's annual accounts and consolidation	**15**	15
Fees in respect of subsidiary's annual accounts	**7**	7
Fees in respect of interim report – parent company	**3**	4
Baker Tilly UK Audit LLP total	**25**	26
Members of Baker Tilly International	**13**	–
Raymond Chabot	**–**	14
Total	**38**	40

5. Finance income

	2009 £'000	2008 £'000
Interest on short term deposits	**1**	2

6. Income tax

(a) Current year tax charge/(credit)

	2009 £'000	2008 £'000
Overseas taxation	**(26)**	(26)
Research and development tax credit	**(27)**	2
Deferred tax charge/(credit)	**131**	(31)
	78	(55)

(b) Tax reconciliation

The tax assessed for the year differs from the small companies' rate in the UK (21%). The differences are explained below:

	2009 £'000	2008 £'000
(Loss)/profit on ordinary activities before tax	**(379)**	333
Tax at 21% (2008: 20%)	**(80)**	67
Effects of:		
Expenses not deductible for tax purposes	**7**	7
Temporary differences	**–**	4
Tax losses	**73**	(78)
Deferred taxation credit	**131**	(31)
Research and development tax credit (including overseas)	**(53)**	(24)
Tax charge/(credit) for the year	**78**	(55)

There are tax losses of approximately £5.0 million (2008: £5.0 million) available for carrying forward against future profits of Group companies.

7. (Loss)/earnings per share

(Loss)/earnings per share is based on the loss for the financial year of £457,000 (2008: profit of £388,000), and the weighted average number of ordinary shares in issue during the year of 109,728,470 (2008: 107,228,470). The fully diluted earnings per share in 2008 takes account of outstanding options which results in a weighted average number of shares in issue during the prior year of 114,417,855. As there is a loss per share in 2009 there is no dilution.

8. Goodwill

Goodwill

	£'000
Cost	
At 1 January 2008	1,671
Exchange rate translation difference for assets held in foreign currency	12
At 1 January 2009	1,683
Exchange rate translation difference for assets held in foreign currency	–
At 31 December 2009	1,683
Accumulated impairment	
At 1 January 2008	–
Impairment loss	–
At 1 January 2009	–
Impairment loss	–
At 31 December 2009	–
Closing carrying value	
At 31 December 2009	1,683
At 31 December 2008	1,683
At 31 December 2007	1,671

The goodwill has arisen upon:

The acquisition of Stilo Corporation (formerly OmniMark Technologies Corporation).

The acquisition of the Content Engineering Division of Xia Systems Corporation.

The acquisition of the business and assets of the Engineering Solutions business of Proceed Holdings Limited.

No impairment provision has been made in this year because, despite the losses in 2009, the acquired businesses are expected to return to profitability and to continue to generate profits in the foreseeable future.

The goodwill is allocated to the group's cash-generating units (CGU's) identified according to operating segment, as follows: Solutions for SAP £50,000 and XML Content Processing £1,633,000. The recoverable amount of the CGU's has been determined by value in use calculations, using pre-tax cash flow projections based on financial budgets approved by management covering a five year period. Cash flows arising from OmniMark software maintenance are extended beyond the five year period as these revenues are annual, recurring revenues which are expected to continue indefinitely. Cash flows beyond the five year period are extrapolated using a growth rate of 2% (2008: 2%). The growth rate does not exceed the long-term average growth rate for the industry. A discount rate of 10% (2008: 10%) has been assumed. The key assumptions which have been used within the value in use calculations are consistent with the forecasts and budgets used by management and are considered to be prudent.

9. Other intangible assets

	Contracts and Tools £'000	Development Costs £'000	Total £'000
Cost			
At 1 January 2008	148	106	254
Additions	–	93	93
At 1 January 2009	148	199	347
Additions	–	24	24
At 31 December 2009	**148**	**223**	**371**
Accumulated amortisation			
At 1 January 2008	30	–	30
Amortisation charge for the year	30	–	30
At 1 January 2009	60	–	60
Amortisation charge for the year	30	40	70
At 31 December 2009	**90**	**40**	**130**
Closing carrying value			
At 31 December 2009	**58**	**183**	**241**
At 31 December 2008	**88**	**199**	**287**
At 31 December 2007	**118**	**106**	**224**

Contracts and tools relate to customer contracts and software tool assets acquired from Proceed Holdings Limited in 2006. They are being amortised over their estimated useful life of 5 years, starting in the year ended 31 December 2007. The amortisation charge relating to contracts and tools is included within the Solutions for SAP business segment.

Development costs relate to the 'Migrate' conversion portal. Sales commenced in 2009. Costs are being amortised over the product's expected useful life of 5 years, commencing in 2009. The amortisation charge relating to development costs is included within the XML Content Processing business segment.

The amortisation charge is included within administrative expenses.

10. Plant and equipment

	Office equipment £'000	Computer equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
At 1 January 2008	19	204	55	278
Additions	3	15	6	24
Disposals	(3)	(18)	–	(21)
At 1 January 2009	19	201	61	281
Additions	–	10	–	10
Disposals	–	(32)	–	(32)
At 31 December 2009	**19**	**179**	**61**	**259**
Depreciation				
At 1 January 2008	17	175	54	246
Charge for the year	3	16	1	20
Disposals	(3)	(10)	–	(13)
At 1 January 2009	17	181	55	253
Charge for the year	1	14	2	17
Disposals	–	(32)	–	(32)
At 31 December 2009	**18**	**163**	**57**	**238**
Net book value				
At 31 December 2009	**1**	**16**	**4**	**21**
At 31 December 2008	**2**	**20**	**6**	**28**
At 31 December 2007	**2**	**29**	**1**	**32**

The depreciation charge is included within administrative expenses.

11. Deferred tax

Deferred tax assets comprise:

	2009 £'000	2008 £'000
At 1 January 2009	**131**	100
Unused tax losses	**(131)**	31
At 31 December 2009	**–**	131

At the balance sheet date, the Group has unused tax losses of £5m (2008: £5.0m) available for offset against future profits. A deferred tax asset of £nil (2008: £131,000) has been recognised in respect of such losses. No deferred tax asset has been recognised in respect of the available losses due to the unpredictability of future profit streams. There are tax losses which expire in 2010 of £nil (2009: £nil).

12. Trade and other receivables

	2009 £'000	2008 £'000
Trade receivables	**407**	854
Other receivables	**9**	79
Prepayments	**56**	25
VAT receivable	**8**	–
	480	958

Standard credit terms for trade receivables are 30 days from invoice date, although certain credit terms are contract-specific. The directors consider that the carrying amount of trade and other receivables approximates their fair value. Gross trade receivables at year end were £416,000 (2008: £873,000). A bad debt reserve of £9,000 (2008: £19,000) is provided against impaired debts. The value of debts which were past due but not impaired at year end was £204,000 (2008: £301,000). These relate to a number of independent customers for whom there is no history of default. The ageing of these debts is as follows:

	2009 £'000	2008 £'000
Up to 3 months	**146**	253
3 to 6 months	**55**	13
More than 6 months	**3**	35
	204	301

Trade receivables denominated in US dollars at year end were £180,000 (2008: £176,000) and trade receivables denominated in Euro's were £45,000 (2008: £15,000). The balance of trade receivables was denominated in sterling.

Movements on the group provision for impairment of trade receivables are as follows:

	2009 £'000	2008 £'000
At 1 January	**19**	8
Provisions for receivables impairment	**9**	11
Receivables written off during the year as uncollectible	**(5)**	–
Unused amounts reversed	**(14)**	–
	9	19

13. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2009 £'000	2008 £'000
Cash on hand and balances with banks	**433**	543
Short term deposits	**3**	3
	436	546

The carrying amount of these assets approximates their fair value.

14. Trade and other payables

	2009 £'000	2008 £'000
Trade payables	**62**	184
Accrued expenditure	**90**	250
Deferred income	**323**	351
Other taxation and social security	**58**	75
	533	860

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

The average credit period taken at 31 December 2009 was 27 days (2008: 42 days).

Trade payables denominated in a foreign currency at year end were £22,000 (2008: £124,000).

15. Non-current liabilities – Other payables

	2009 £'000	2008 £'000
Deferred income	**6**	33

Deferred income arises on maintenance contracts. Revenue is recognised over the period to which the maintenance contract relates.

16. Share capital

	2009 £'000	2008 £'000
Authorised		
247,943,770 Ordinary shares of 1p each	**2,479**	2,479
452,056,230 Deferred shares of 1p each	**4,521**	4,521
	7,000	7,000
Issued and fully paid for		
109,728,470 Ordinary shares of 1p each	**1,097**	1,047
452,056,230 Deferred shares of 1p each	**4,521**	4,521
	5,618	5,618

The Deferred shares have no economic value, no right to receive any dividend and have no right to attend or vote at a General Meeting of the Company.

17. Share based payments

The following options have been granted over 1p Ordinary shares in the Company:

Date exercisable	As at 1 January 2009	Granted	Cancelled	**As at 31 December 2009**	Exercise price
Unapproved Scheme:					
– from 30 April 2008 to 30 April 2018	3,768,000	–	(50,000)	**3,718,000**	1.5p
– from 23 October 2011 to 23 October 2019	–	2,300,000	–	**2,300,000**	1.25p
EMI Scheme					
– from 16 October 2006 to 16 October 2016	200,000	–	(100,000)	**100,000**	2.125p*
– from 30 April 2011 (no expiry date)	2,600,000	–	–	**2,600,000**	1.5p
– from 5 November 2011 to 5 November 2018	1,000,000	–	–	**1,000,000**	1.75p
– from 20 April 2011 to 5 November 2019	–	500,000	–	**500,000**	2.5p
– from 23 October 2011 to 23 October 2019	–	100,000	–	**100,000**	1.25p
	7,568,000	2,900,000	(150,000)	**(10,318,000)**	

* not exercisable until share price reaches 6p per share.

No shares options were exercised during the year.

An expense of £32,000 was recognised from share based transactions in the year (2008: £22,000).

Details of share options held by Directors can be found in the Remuneration Report on page 8.

Registered Number: 03893693

17. Share based payments *continued*

Equity-settled share option plan

The Group plan provides for a grant price equal to the average quoted market price of the Group shares on the date of grant. To date, no options have vested under this plan. If options remain unexercised after a period of 10 years from the date of grant, the options expire (except for those provided to L Burnham which have no expiry date). Furthermore, options are normally forfeited if the employee leaves the Group before the options vest.

	2009		2008	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at 1 January	7,568,000	1.55p	6,810,770	2.5p
Granted during the year	2,900,000	1.47p	7,368,000	1.54p
Forfeited during the year	(150,000)	1.92p	(5,199,800)	2.5p
Exercised during the year	–	–	–	–
Expired during the year	–	–	(1,410,970)	2.5p
Outstanding at 31 December	10,318,000	1.52p	7,568,000	1.55p
Exercisable at 31 December	1,774,000	1.5p	–	–

No share options were exercised during the year. The options outstanding at 31 December 2009 had an exercise price between 1.25p and 2.5p, and a weighted average remaining contractual life of 9 years.

The inputs into the Black Scholes model are as follows:

	2009	2008
Weighted average share price	1.52p	1.55p
Weighted average exercise price	10p	10p
Expected volatility	60%	60%
Expected life	10 years	10 years
Risk free rate	5%	5%
Expected dividends	nil	nil

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 4 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group recognised total expenses of £32,000 (2009: £22,000) relating to equity-settled share-based payment transactions.

18. Retirement benefit obligations

The group pension arrangements are operated through a defined contribution scheme. The amount recognised as an expense in the year ended 31 December 2009 is £37,000 (2008: £48,000).

190. Contingent liabilities

No contingent liabilities have been provided in these accounts.

21. Commitments under operating leases

At 31 December 2009, the minimum lease payments under non-cancellable operating lease rentals are in aggregate as follows:

	2009 Land and buildings £'000	**2009 Other £'000**	2008 Land and buildings £'000	2008 Other £'000
Payable:				
– within 1 year	**89**	**3**	86	3
– within 1-5 years	**71**	**5**	93	8
– after 5 years	**–**	**–**	–	–
	160	**8**	179	11

21. Financial Risk Management

The group's operations expose it to a number of financial risks including market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The group manages these risks through an effective risk management programme.

Exposures to risks are monitored by the group's Chief Financial Officer, and reports are produced monthly to assess risks and to indicate their impact on the business.

The risks reports are provided to the Board of Directors at bi-monthly board meetings and are discussed with the Board to ensure that the risk mitigation procedures are compliant with the Group policy and that any new risks are appropriately managed.

Liquidity risk

The Group closely monitors its access to bank and other credit facilities in comparison to its outstanding commitments on a regular basis to ensure that it has sufficient funds to meet the obligations of the Group as they fall due.

The Board receives regular debt management forecasts which estimate the cash inflows and outflows over the next eighteen months, so that management can ensure that sufficient funding is in place as it is required.

Interest rate profile

The Group has no financial assets other than sterling cash deposits of £75,000 (2008: £0.1m) invested at an approximate rate of 0.4% below Bank of England base rate. Group funds are invested in deposit accounts with the objective of maintaining a balance between accessibility of funds and competitive rates of return.

The Group had no interest bearing borrowings at 31 December 2009 or 2008.

21. Financial Risk Management *continued*

Maturity of financial assets and liabilities

The maturity profile of the Group's financial liabilities as at 31 December 2009 is given in note 14.

The main financial assets are cash and accounts receivable. Cash is held mainly in current accounts. The profile of receivables is shown in note 12.

The Group would normally expect that sufficient cash is generated in the operating cycle to meet cash flows through effective cash management.

Borrowing facilities

The Group had no un-drawn committed borrowing facilities at 31 December 2009 or 31 December 2008.

Credit risk exposure

Credit risk predominantly arises from financial asset investments, trade receivables and cash and cash equivalents.

Credit exposure is managed on a group basis. Although external credit ratings are not obtained for customers, Group policy is to assess the credit quality of each customer internally before accepting any terms of trade. Internal procedures are performed taking into account their financial position as well as their reputation within the industry and past experience.

The Group's maximum exposure to credit risk relating to its financial assets is equivalent to their carrying value as disclosed in note 12. All financial assets have a fair value which is equal to their carrying value.

The group did not have any financial instruments that would mitigate the credit exposure arising from the financial assets designated at fair value through the profit or loss in either the current or the preceding financial year.

Foreign currency exposure

The Group operates in a number of markets across the world and is exposed to foreign exchange risk arising from various currency exposures in particular, with respect to the US dollar, Canadian dollar and the Euro. The Group is exposed to foreign currency risk arising from recognised assets and liabilities as well as commitments arising from future trading transactions. Approximately 39% of sales are denominated in US dollars and 26% of sales are in euros. Approximately 43% of costs are in Canadian dollars and 7% of costs are in euros. Details of accounts receivable and accounts payable denominated in foreign currencies are given in notes 12 and 14. Approximately 75% of the Group's cash is held in US dollars. As a result of a partial natural hedge between the different currencies, the Group is reasonably protected against currency fluctuations.

The group is exposed to foreign exchange risk from commercial transactions and recognised assets and liabilities which are denominated in a currency other than the group entities' functional currencies. In particular, the group has significant US dollar transactions which are recorded in a Canadian dollar functional currency. At 31 December 2009 if the US dollar had strengthened/weakened by 10% against the Canadian dollar, post-tax profit would have been £42,000 higher/lower as a result of the foreign exchange gains/losses on translation of US dollar-denominated cash and accounts receivable.

Historically the Group has not used derivative instruments to hedge against possible risks arising from fluctuations in foreign currency exchange rates as the exposure is limited. If foreign currency exposure increases, the use of foreign currency hedging instruments will be reviewed as a means of reducing the effect of exchange rate fluctuations on the Group's results.

22. Capital management

The group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The group sets the amount of capital in proportion to risk. The group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Consistently with others in the industry, the group monitors capital on the basis of the debt to adjusted capital ratio. This ratio is calculated as net debt/adjusted capital. Net debt is calculated as total debt less cash and cash equivalents. Adjusted capital comprises all components of equity other than amounts recognised in equity relating to cash flow hedges, and includes some forms of subordinated debt.

23. Related party transactions

Transactions with related parties were as follows:

Disclosures required in respect of IAS 24 regarding remuneration of key management personnel is covered by the disclosure of directors' remuneration included within note 3.

Amount charged by Richard Alsept Limited, a company owned by Richard Alsept (former Company Secretary and Chief Financial Officer) in respect of accountancy services was £nil (2008: £15,416). The amount owed to Richard Alsept Limited at 31 December 2009 was £nil (2008: £500).

Amount charged by Chris Moore Consulting Limited, a company owned by Christine Moore (current Company Secretary and Chief Financial Officer) in respect of management services was £38,401 (2008: £6,110). The amount owed to Chris Moore Consulting Limited at 31 December 2009 was £3,809 (2008: £6,985). During the year 600,000 stock options were granted to Christine Moore at an exercise price of 1.25p.

During the year the following transactions, which are all considered to be at arms length, took place between group companies:

Management fees charged by Stilo International plc to Stilo Corporation, £135,000 (2008: £140,000)

Management fees charged by Stilo Technology to Stilo International plc, £175,000 (2008: £175,000)

Cost recharge from Stilo Corp to Stilo Technology Limited, £22,000 (2008: £24,000)

At 31 December 2009, the following balances were owed by Group companies:

Owed by Stilo Technology Limited to Stilo International plc, £4,136,000 (2008: £4,171,000)

Owed by Stilo Corporation to Stilo International plc, £85,000 (2008: £90,000)

Owed by Stilo Technology Limited to Stilo Corp, £22,000 (2008: £24,000)

24. Bank guarantees

There were no bank guarantees given by the Company at 31 December 2009.

25. Investment in subsidiaries

Parent Company

	Investments in subsidiaries £'000	Loans to subsidiaries £'000	Total £'000
Net book value			
At 1 January 2008	823	773	1,596
Additions/disposals	–	54	54
At 1 January 2009	823	827	1,650
Additions/disposals	–	(40)	(40)
At 31 December 2009	**823**	**787**	**1,610**

The net book value of investments is stated after impairment write-downs of £2,759,000 (2008: £2,759,000).

Each subsidiary principally does business in the country of its incorporation and all equity is in the form of ordinary shares or its equivalent. The following is a list of all principal trading subsidiaries.

Name of Company	Country of Incorporation	Shareholding	Nature of Business
Stilo Technology Limited[1]	England	100%	Sale of software and services
Stilo Corporation[1]	Canada	100%	Sale of software and services
OmniMark Technologies Inc[2]	USA	100%	Dormant

(1) Directly owned by Stilo International Plc.
(2) Owned by Stilo Corporation.

26. Loss attributable to parent company

The loss for the financial year dealt with in the accounts of Stilo International plc was £40,000 (2008: £35,000). As provided for by section 408 of the Companies Act 2006, no profit and loss account is presented in respect of the parent company.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Stilo International plc (the "**Company**") will be held at the offices of Baker Tilly, 2 Bloomsbury Street, London WC1B 3ST on 18 May 2010 at 11.30 am to transact the following business:

ORDINARY BUSINESS

To consider as ordinary business and, if thought fit, pass the following resolutions which will be proposed as ordinary resolutions.

Accounts

Resolution 1: To receive and consider the Company's annual accounts for the year ended 31 December 2009, together with the Directors' report and Auditors report thereon.

Directors

Resolution 2: To re-elect as a Director, Barry Welck who retires in accordance with Regulation 23.1 of the Company's current Articles of Association of the Company and, being eligible, offers himself for re-election as a Director of the Company. A short biography is provided on page 9 of the Annual Report and Accounts.

Auditors

Resolution 3: To reappoint Baker Tilly UK Audit LLP, Registered Auditors as Auditors to the company from the conclusion of the meeting until the conclusion of the next Annual General Meeting at which the accounts for the Company are presented, and to authorise the Board of Directors to fix their remuneration.

SPECIAL BUSINESS

To consider as special business and, if thought fit, pass the following resolutions which will be proposed as to resolution 4, as an ordinary resolution and as to resolutions 5, 6 and 7 as special resolutions.

Resolution 4:

That the directors of the Company be and they are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "**2006 Act**") to exercise all the powers of the Company to allot shares and grant rights to subscribe for, or convert any security into, shares:

(a) up to an aggregate nominal amount (within the meaning of section 551(3) and (6) of the 2006 Act) of £365,761; and

(b) comprising equity securities (as defined in section 560 of the 2006 Act) up to an aggregate nominal amount (when added to any allotments made under (a) above) of £731,522 in connection with or pursuant to an offer or invitation by way of a rights issue in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment (and holders of any other class of equity securities entitled to participate therein or, if the directors consider it necessary, as permitted by the rights of those securities), but subject to such exclusions or other arrangements as the directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any regulatory body or stock exchange in any territory.

This authority shall be in substitution for and shall replace any existing authorities and shall expire at the conclusion of the next Annual General Meeting, save that the Company may before such expiry make offers or agreements which would or might require shares to be allotted or rights to be granted after such expiry.

Resolution 5:

That, subject to the passing of resolution 4, the directors of the Company be and they are hereby empowered pursuant to section 570 of the Companies Act 2006 (the "**2006 Act**") to allot equity securities (as defined in section 560 of the 2006 Act) of the Company for cash pursuant to the authority conferred by resolution 4 as if section 561 of the 2006 Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash:

(a) in connection with or pursuant to an offer or invitation (but in the case of the authority granted under resolution 4(b), by way of a rights issue only) in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment (and holders of any other class of equity securities entitled to participate therein or if the director consider it necessary, as permitted by the rights of those securities) but subject to such exclusions or other arrangements as the directors may deem necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any regulatory body or stock exchange in any territory or otherwise howsoever; and

(b) in the case of the authority granted under resolution 4(a) above, and otherwise than pursuant to paragraph (a) of this resolution, for cash up to an aggregate nominal amount of £109,728 being approximately (and not more than) 10% of the Company's issued ordinary share capital (excluding treasury shares) as at the date of the Notice of this meeting.

This power shall expire at the conclusion of the next Annual General Meeting, save that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry.

Resolution 6:

That:

(a) the Company may send or supply any document or information that is required or authorised to be sent or supplied to a member or any other person by the Company by a provisions of the Companies Acts (as defined in section 2 of Companies Act 2006 (the "**2006 Act**")), or pursuant to the Company's articles of association or to any other rules or regulations to which the Company may be subject, by making it available on a website; and

(b) the provisions of the 2006 Act which apply to sending or supplying a document or information by making it available on a website shall also apply, with any necessary changes, to sending or supplying any document or information required or authorised to be sent by the Company's articles of association or any other rules or regulations to which the Company may be subject, by making it available on a website; and

(c) this resolution 6 shall supersede any provision in the Company's articles of association to the extent that it is inconsistent with this resolution.

Resolution 7:

That:

(a) the articles of association of the Company be amended by deleting all the provisions of the Company's memorandum of association which, by virtue of section 28 of the Companies Act 2006, are to be treated as provisions of the Company's articles of association; and

(b) the articles of association produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be adopted as the articles of association of the Company in substitution for, and to the exclusion of, the existing articles of association.

By order of the Board

Christine Moore
Company Secretary

16 March 2010

NOTES:

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact the company secretary, Christine Moore, or the Company registrars, Capita Registrars Limited.

2. To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at the office of the Company's registrars no later than 48 hours before the time appointed for holding the meeting.

3. The return of a complete proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 6 below) will not prevent a shareholder attending the meeting and voting in person if he/she wishes to do so.

4. To be entitled to attend and vote at the meeting or any adjournment (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company 48 hours (excluding non-working days) before the time appointed for holding the meeting or adjourned meeting. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

5. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

6. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland's specifications and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

7. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

8. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

9. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

10. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting by no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interest of the company or the good order of the meeting that the question be answered.

11. Copies of the following documents are available for inspection at the registered office of the Company during normal business hours (excluding weekends and public holidays) from the date of this notice until the conclusion of the AGM, and will also be available for inspection at the place of the AGM from 15 minutes before it is held until its conclusion:

    (a) service contracts of the executive directors with the Company or any of its subsidiary undertakings;

    (b) letters of appointment of the non-executive directors of the Company;

    (c) a copy of the proposed new articles of association of the Company, and a copy of the existing memorandum and articles of association;

    (d) the register of interests of the Directors and their families in the share capital of the Company.

Explanatory notes to the resolutions

The notes on the following pages give an explanation of the proposed resolutions.

Resolutions 1 to 4 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half the votes cast must be in favour of the resolution.

Resolutions 5 to 7 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Ordinary Business

Resolution 1: To receive and consider the Company's annual accounts

The Directors present the accounts and the reports of the Directors and auditors for the year ended 31 December 2009.

Resolution 2: Re-election of Directors

Pursuant to the Company's articles of association, one-third of the Directors who are subject to retirement by rotation, or if their number is not three or a multiple of three, then the number nearest to but not exceeding one third shall retire from office. However, section 1 of the Combined Code on Corporate Governance and Code of Best Practice (the "Combined Code") requires all Directors to submit themselves for re-election at least every three years. As an AIM listed company, the provision of the Combined Code are not strictly binding on the Company but are considered to be best practice and therefore Barry Welck is retiring and offering himself for re-election.

Resolution 3: Re-appointment and remuneration of auditors

It is proposed that Baker Tilly UK Audit LLP be re-appointed as auditors to the Company and that the Directors be authorised to determine their remuneration.

Resolution 4: Authority to allot shares

This resolution proposes that the Directors' authority to allot shares be renewed. The authority previously given to the Directors at the last AGM of the Company will expire at this year's AGM. Under the Companies Act 2006, the Directors of the Company may only allot shares or grant rights to subscribe for or convert into shares if authorised to do so.

Paragraph (a) of resolution 4 will allow the Directors to allot new shares or grant rights up to an aggregate nominal value of £365,761, which is equal to approximately one third of the total issued ordinary share capital of the Company as at the date of this notice (excluding treasury shares). In line with corporate governance guidelines, paragraph (b) will allow the Directors to allot equity securities up to an aggregate nominal amount (when added to allotments under part (a) of this resolution) of £731,522 where the allotment is in connection with a rights issue. These amounts represent approximately one third and two thirds respectively of the total issued ordinary share capital (excluding treasury shares) as at the date of this notice.

As at the date of this notice, the Company did not hold any shares in treasury.

If passed the authority given by this resolution will expire at the conclusion of the Company's next Annual General Meeting. The Directors have no present intention to allot new shares or grant rights (other than in respect of the Company's share option schemes and plans). The Directors may, however, consider doing so if they believe it would be appropriate in respect of business opportunities that may arise consistent with the Company's strategic objectives.

Resolution 5: Disapplication of pre-emption rights

Under the Companies Act 2006, if the Directors wish to allot shares for cash (other than in connection with an employee share scheme) they must first offer them to existing shareholders in proportion to their holdings (a "**pre-emption offer**"). There may be occasions, however, when the Directors will need the flexibility to finance business opportunities by the issue of ordinary shares without making a pre-emption offer to existing shareholders.

This resolution seeks to renew the Directors' power to allot equity securities in certain limited circumstances otherwise than in relation to a pre-emption offer. The power granted at the last AGM is due to expire at this year's AGM. Apart from pre-emption offers, the power is limited to the allotment of equity securities for cash up to an aggregate nominal value of £109,728 (being approximately – but not more than – 10% of the issued ordinary share capital (excluding treasury shares) as at the date of this notice). If given, this power will expire at the conclusion of the 2011 AGM.

The Board does not intend to issue more than 7.5% of the issued share capital of the Company on a non pre-emptive basis in any rolling three-year period. This is in line with corporate governance guidelines.

Resolution 6: Electronic Communications

Resolution 6 will enable the Company to take full advantage of the provisions of the Companies Act 2006 in relation to website and other electronic communication with shareholders. Resolution 6 covers all notices, documents or information that the Company may serve, send or supply to a shareholder and overrides any inconsistent provision in the articles of association.

If resolution 6 is passed, the Company will be able to ask each shareholder to agree to the Company serving, sending or supplying notices, documents or information by means of a website. If the Company has not received a response within the period of 28 days beginning with the date of the request, the shareholder will be taken to have agreed. The Company will notify any shareholder that has agreed, or has been taken to have agreed, to website communications (either in writing, or by any other permitted means) when the relevant notice, document or information is placed on the website. A shareholder that has agreed, or has been taken to have agreed, to website communications can always request a hard copy version of the notice, document or information. If shareholders do not wish to receive website communications, there will be no obligation to do so.

Subject to the passing of resolution 6, if and when the Company decides to take advantage of the 2006 Act in relation to website communications, shareholders will be contacted with further details.

Resolution 7: Adoption of new articles of association

It is proposed in resolution 7 to adopt new articles of association (the "**New Articles**") in order to update the Company's current articles of association (the "**Current Articles**"), primarily to take account of the Companies Shareholders' Rights Regulations 2009 (the "**Shareholders' Rights Regulations**"), the final stage of the implementation on 1 October 2009 of the Companies Act 2006 and amendments to the Uncertificated Securities Regulations 2001.

The principal changes introduced in the New Articles are summarised in the Appendix to these Explanatory Notes. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 or the Shareholders' Rights Regulations or conform the language (and order) of the New Articles with that used in the model articles for public companies produced by the Department for Business, Innovation and Skills have not been noted in the Appendix. The New Articles are available for inspection, as noted in Note 11 of this document.

Appendix

Explanatory Notes of Principal Changes to the Company's Articles of Association

Please note, that for the purposes of these explanatory notes, the Company's current articles of association are referred to as the "**Current Articles**", whilst those proposed to be adopted pursuant to resolution 7 (b) are referred to as the "**New Articles**".

1 **The Company's objects**

The provisions regulating the operations of the Company are currently set out in the Company's memorandum and articles of association. The Company's memorandum contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake. This is drafted to give a wide scope.

The Companies acts 2006 significantly reduces the constitutional significance of a company's memorandum. The Companies Act 2006 provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the Companies Act 2006 the objects clause and all other provisions which are currently contained in the Company's memorandum, for existing companies at 1 October 2009, are deemed to be contained in the Company's Current Articles but the Company can remove these provisions by special resolution.

Further, the Companies Act 2006 states that unless a company's articles provide otherwise, then that company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason, the Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the Companies Act 2006, are to be treated as forming part of the Company's Current Articles as of 1 October 2009. Resolution 7 (a) confirms the removal of these provisions for the Company. As the effect of this resolution will be to remove the statement currently in the Company's memorandum of association regarding limited liability, the New Articles also contain an express statement regarding the limited liability of the shareholders.

2 **Articles which duplicate statutory provisions**

Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are in the main to be removed in the New Articles, whilst others are amended to bring them into line with the Companies Act 2006. This is in line with the approach advocated by the Government that statutory provisions should not, in general, be duplicated in a Company's constitution.

3 **Change of name**

Previously, a company could only change its name by special resolution. Under the Companies Act 2006 a company will be able to change its name by other means provided for by its articles. The take advantage of this provision, the New Articles enable the directors to pass a resolution to change the Company's name.

4 **Authorised share capital and unissued shares**

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital and the New Articles reflect this. The various provisions relating to authorised share capital which were set out in the Current Articles are not, therefore, replicated in or carried across into, the New Articles. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Companies Act 2006, save in respect of employee share schemes.

5 **Redeemable shares**

Previously, if a company wished to issue redeemable shares, it had to include in its articles the terms and manner of redemption. The Companies Act 2006 enable directors to determine such matters instead provided they are so authorised by the articles. The New Articles contain such an authorisation. The Company has no current plans to issue redeemable shares, but if it did so the directors would need shareholders' authority to issue new shares in the usual way.

6 **Uncertificated shares**

The New Articles contain provisions regarding uncertificated shares which are absent from the Current Articles. These are in line with the Uncertificated Securities Regulations 2001 and the modifications made thereto by the Companies Act 2006. In practical terms, these provisions provide for the issue, transfer and voting of and other dealings in shares of the Company through the CREST system, or such other system as may replace that system from time to time.

7 **Suspension of registration of share transfers**

The Current Articles permit the directors to suspend the registration of transfers. Under the Companies Act 2006 share transfers must be registered as soon as practicable. The power in the Current Articles to suspend the registration of transfers is inconsistent with this requirement and, accordingly, this power has been removed in the New Articles.

8 **Authority to purchase own shares, consolidate and sub-divide shares and reduce share capital**

Previously, a company required specific enabling provisions in its articles to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves as well as shareholder authority to undertake the relevant action. The Current Articles include all these enabling provisions. Under the Companies Act 2006, a company will only require shareholder authority to do any of these things and it is no longer necessary for articles to contain enabling provisions. Accordingly, no such enabling provisions appear in the New Articles.

9 **Share warrants**

The New Articles contain provisions enabling the Company to, with respect to any fully paid shares, issue a warrant stating that the bearer of the warrant is entitled to the shares specified in it and may provide (by coupons or otherwise) for the payment of future dividends on the shares included in a share warrant.

10 **Convening extraordinary and annual general meetings**

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings appear in amended form in the New Articles, reflecting the provisions of the Companies Act 2006. In particular, a general meeting (other than an annual general meeting) to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

11 **Form of resolution**

The Current Articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision is amended in the New Articles as the concept of extraordinary resolutions has not been retained under the Companies Act 2006.

The Current Articles enable members to act by written resolution. Under the Companies Act 2006, however, public companies can no longer pass written resolutions and accordingly these provisions do not appear in the New Articles.

12 **Electronic conduct of meetings**

Amendments to the Companies Act 2006 by the Shareholders' Rights Regulations specifically provide for the holding and conducting of electronic meetings. The New Articles reflect the relevant provisions.

13 **Voting by proxies on a show of hands**

Under the Companies Act 2006, proxies are entitled to vote on a show of hands, whereas under the Current Articles, proxies are only entitled to vote on a poll. The Shareholders' Rights Regulations have amended the Companies Act 2006 so that it now provides that each proxy appointed by a member has one vote on a show of hands unless the proxy is appointed by more than one member. In this case, the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. The New Articles reflect the position under the Companies Act 2006 and clarify how the provisions giving a proxy a second vote on a show of hands should apply to discretionary authorities.

14 **Voting by corporate representatives**

The Shareholders' Rights Regulations have amended the Companies Act 2006 in order to enable multiple representatives appointed by the same corporate member to vote in different ways on a show of hands and on a poll. The New Articles contain provisions which reflect these amendments.

15 **Chairman's casting vote**

The New Articles remove the provision of the Current Articles giving the chairman a casting vote in the event of an equality of votes at a general meeting as this is inconsistent with the Companies Act 2006.

16 **Proposal and secondment of resolutions**

The New Articles provide that, at general meetings, resolutions shall be put to the vote by the Chairman of the meeting and there shall be no requirement for the resolution to be proposed or seconded by any person.

17 **Variation of class rights**

The Current Articles contain provisions regarding the variation of class rights. The proceedings and specific quorum requirements for a meeting convened to vary class rights are contained in the Companies Act 2006 and reflected in the New Articles.

18 **Age of directors on appointment**

The Current Articles contain a provision requiring a director's age to be disclosed if he has attained the age of 70 years or more in the notice convening a meeting at which the director is proposed to be elected or re-elected. Such provision could now fall foul of the Employment Equality (Age) Regulations 2006 and so does not appear in the New Articles.

By contrast, the New Articles reflect the Companies Act 2006 in that they provide that no person shall be eligible to be appointed a director unless that person is at least sixteen years of age.

19 **Vacation of office by directors**

The Current Articles specify the circumstances in which a director must vacate office. The New Articles update these provisions to reflect the approach taken on mental and physical incapacity in the model articles for public companies produced by the Department for Business, Innovation and Skills.

20 **Retirement of directors as annual general meetings**

The New Articles reflect the latest guidance from the Association of British Insurers in stating that at each annual general meeting of the Company all those directors who have been in office for three years or more since their election or last re-election shall retire from office. This is in contrast with the position in the Current Articles which requires that one-third of the directors shall retire at each annual general meeting, though the effect of the provision in the New Articles will not be dissimilar from the effect of that contained in the Current Articles.

21 **Conflicts of interest**

The Companies Act 2006 sets out directors' general duties which largely codify the existing law but with some changes. Under the Companies Act 2006, from 1 October 2008, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation (including, for example, a company pension scheme). The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, if appropriate, where the articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The New Articles give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply at the discretion of the directors and where the position giving rise to the potential conflict has previously been authorised by the directors. It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures set out in the New Articles have been followed.

22 Notice of board meetings

Under the Current Articles, when a director is abroad he can request that notice of directors' meetings are sent to him at a specified address and if he does not do so he is not entitled to receive notice while he is away. This provision has been removed, as modern communications mean that there may be no particular obstacle to giving notice to a director who is abroad. It has been replaced with a more general provision that a director is treated as having waived his entitlement to notice, unless he supplies the Company with the information necessary to ensure that he receives notice of a meeting before it takes place.

23 Provision for employees on cessation of business

The Companies Act 2006 provides that the powers of the directors of a company to make provision for a person employed or formerly employed by the Company or any of its subsidiaries in connection with the cessation or transfer to any person of the whole or part of the undertaking of the Company or that subsidiary, may only be exercised by the directors if they are authorised by the Company's articles or by the Company in general meeting. The New Articles provide that the directors may exercise this power.

24 Use of seals

Previously, a company required authority in its articles to have an official seal for use abroad. Under the Companies Act 2006 such authority is no longer required. Accordingly, the relevant authorisation has been removed in the New Articles.

The New Articles provide an alternative option for execution of documents (other than share certificates). Under the New Articles, when the seal is affixed to a document it may be signed by one authorised person in the presence of a witness, whereas previously the requirement was for signature by either a director and the secretary or two directors or such other person or persons as the directors may approve.

25 Records to be kept

The provision in the Current Articles requiring the Board to keep accounting records has been removed as this requirement is contained in the Companies Act 2006.

26 Electronic and web communications

Provisions of the Companies Act 2006 which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the provisions relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

27 **Distribution of assets otherwise than in cash**

The Current Articles contain a provision dealing with the distribution of assets in kind in the event of the Company going into liquidation. These provisions have been removed in the New Articles on the grounds that a provision about the powers of liquidators is a matter for insolvency law rather than the articles and that the Insolvency Act 1986 confers powers on the liquidator which would enable it to do what is envisaged by the Current Articles.

28 **Directors' indemnities and loans to fund expenditure**

The Companies Act 2006 has, in some areas, widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In particular, a company that is a trustee of an occupational pension scheme can now indemnify a director against liability incurred in connection with the company's activities as trustee of the scheme. In addition, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies. These provisions are reflected in the New Articles.

29 **General**

Generally, the opportunity has been taken to bring clearer language into the New Articles and in some areas to conform the language and order of the New Articles with that used in the model articles for companies produced by the Department for Business, Innovation and Skills.

FORM OF PROXY
FOR USE AT THE ANNUAL GENERAL MEETING OF STILO INTERNATIONAL plc ON 18 MAY 2010

stilo international plc

I/We ____________________

of ____________________

(Please complete in block capitals)

being (a) member(s) of the above named Company (the "**Company**"), hereby appoint the Chairman of the Meeting or the following person (see note (3) below)

____

as my/our proxy to attend, vote and speak for me/us and on my/our behalf at the Annual General Meeting of the company to be held at the offices of Baker Tilly, 2 Bloomsbury Street, London WC1B 3ST on Tuesday, 18 May 2010 at 11.30 a.m. and at every adjournment thereof.

I/We direct my/our proxy to vote on the under-mentioned resolutions as follows:

Please insert an "X" in the appropriate boxes alongside the resolutions.

Ordinary Business	For	Against	Vote Withheld
Ordinary Resolutions			
1 To receive and adopt the Directors' Report and Accounts for the year ended 31 December 2009.			
2 To re-appoint Barry Welck as a Director.			
3 To re-appoint Baker Tilly UK Audit LLP as Auditors to the Company and to authorise the Directors to fix their remuneration.			
Special Business			
Ordinary Resolution			
4 To authorise the Directors to allot relevant securities.			
Special Resolution			
5 To authorise the Directors to allot equity securities and to disapply statutory pre-emption rights in relation to the issue of certain equity securities.			
6 To authorise the Company to serve, send or supply notices and/or other documents as are necessary and/or required to it's shareholders by making such documents available on a website.			
7 To adopt new articles of association.			

Name of joint holders (if any) ____________________

If this form is signed and returned without any indication as to how the proxy shall vote, the proxy will exercise discretion both as to how the proxy votes and whether or not the proxy abstains from voting. The proxy will also exercise discretion as to voting (and whether or not the proxy abstains from voting) on any other business transacted at the Meeting.

Signature ____________________

Dated ____________________ 2010

Notes:

1 Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company.

2 Please indicated with an 'X' in the appropriate boxes how you wish the proxy to vote. The proxy will exercise his discretion as to how he votes or whether he abstains from voting:

(a) on any resolution referred to above if no instruction is given in respect of that resolution; and

(b) on any business or resolution considered at the meeting other than the resolutions referred to above.

3 If you wish to appoint someone other than the chairman of the meeting as your proxy please delete the words 'the Chairman of the Meeting' and insert the name of the person you wish to appoint. A proxy need not be a member of the Company.

4 To be valid any proxy form or other instrument appointing a proxy and any power of attorney under which it is executed (or a duly certified copy of any such power of authority), must be received by post or (during normal business hours only) by hand at the office of the Company's registrars (Capita Registrars Limited, 34 Beckenham Road, Beckenham, Kent BR3 4TU) no later than 48 hours before the time appointed for holding the meeting.

5 Where the member is a corporation this form must be under its common seal or signed by an officer, attorney or other person duly authorised by the corporation.

6 In the case of joint holders only one need sign this form, but the names of the other joint holders should be shown in the space provided. The vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders. Seniority will be determined by the order in which the names of the holders appear in the register of members in respect of the joint holding.

7 The return of a completed proxy form will not prevent a shareholder attending the meeting and voting in person if he/she wishes to do so.

8 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

9 In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland's specifications and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

10 CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

11 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

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BUSINESS REPLY
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RSBH–UXKS–LRBC

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