Annual Report and Accounts

for the year ended 31 December 2006

stilo
international plc

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CHAIRMAN'S STATEMENT

Overview and Strategy

Stilo provides leading solutions for Product Lifecycle Management, Document Management, Data Migration and e-Publishing to customers in Aerospace & Defence, Manufacturing, IT, Telecommunications, Publishing and Government. Our solutions typically comprise a combination of services and software.

On 31 July 2006 Stilo broadened the range of enterprise solutions offered to corporate customers through the purchase of the Engineering Solutions business of Proceed Holdings Ltd in the UK. The Engineering Solutions team brought to Stilo a deep understanding of the SAP® market-place, associated high-level consulting skills and third-party software applications expertise.

Operating from offices in the UK, France and North America, we support an extensive list of customers including Boeing, IBM, International Atomic Energy Agency, Wolters Kluwer, BAe Systems, Westland Helicopters and the European Parliament.

Our strategy is to grow the company organically and by acquisition, expanding and deepening the range of niche solutions and services we provide to corporate customers.

In November 2006 a new share issue raised £150,000 at 2p per share, providing further working capital for the Company in order to help fund existing and potential future development, and to enable the Company to take advantage of any small acquisition opportunities that may arise.

Results

After several years of reducing losses, in 2006 the group returned a small trading profit (before exceptional items and amortisation of goodwill) for the year of £9,000 (2005: £185,000 loss). This is the first full year that Stilo has reported a trading profit, and represents the achievement of a major milestone in the ongoing advancement of the Company.

Total sales revenue for the period increased by 8 per cent to £2,264,000 (2005: £2,099,000) and the cash position stabilised, with cash of £420,000 as at 31 December 2006 (2005: £373,000).

Operating expenses, excluding exceptional items, were reduced to £2,395,000 (2005: £2,510,000), with savings from cost reductions in Europe offset by the acquisition of personnel in the Engineering Solutions business.

Non-recurring exceptional costs for the year totalled £169,000, consisting of staff redundancy costs and a write-down of irrecoverable costs on a development project.

The goodwill amortisation of £293,000 relates to the purchase of OmniMark Technologies Corporation in 2001, and to the purchase of Xia Systems (Content Engineering Division) in 2004.

In the e-Publishing solutions business, sales increased by 10 per cent in North America to £1,389,000 (2005: £1,262,000). However, this was offset by a lower level of sales in Europe to £451,000 (2005: £828,000), primarily as a result of declining software orders. During the course of the year, overheads in Europe were reduced significantly through a lowering of staff numbers, the closure of our Belgium office, and a move to smaller offices in Paris. Sales operations have been re-located from Paris to the UK.

The e-publishing business overall was underpinned by recurring annual software maintenance revenues of £750,000 in 2006, generated from 170 customer contracts.

The Engineering Solutions business got off to a good start in 2006, achieving sales revenues of £412,000 in the five month period following acquisition, and making a positive contribution to overall profitability.

Provision has been made in the accounts for the first part of the contingent consideration relating to the purchase of the Engineering Solutions business. This consideration is £90,000, payable in August 2007. The consideration will be used by the vendor to subscribe for 4,500,000 new Stilo 1p Ordinary Shares. This consideration has been provided as there is a reasonable expectation that the first performance target for the business (a sales turnover in excess of £750,000 for the year ended 31 July 2007) will be met.

At the end of 2006, the group employed 30 staff, with 13 based in the UK, 14 in North America and 3 in Europe.

Products, Services and Solutions

e-Publishing

OmniMark

OmniMark provides an application development and high performance run-time environment for XML content processing applications. Users of OmniMark are able to reduce significantly the time and costs of developing and maintaining new content processing applications, whilst ensuring high-performance levels of execution which is especially critical to major web applications. OmniMark has been deployed by customers around the world over a fifteen year period, and is a robust, well-proven technology.

Solutions Components

In 2007 Stilo is bringing to market a range of Stilo solution components, for use by those responsible for implementing e-Publishing solutions including system integrators, solutions architects, application developers and publishing managers. The solution components are intended to assist organisations leverage the power of XML in their publishing strategies – reducing production costs, shortening cycle-times and improving the quality of published information.

Integrated Solutions

Stilo combines services and technology to build integrated e-Publishing solutions, including the Stilo Interactive Technical Information Publisher (iTIP) and the Stilo Conversion Factory.

Stilo's iTIP has evolved over a ten year period as a proven approach to distributing complex technical information to large and widely-distributed user communities.

The Stilo Conversion Factory reduces costs, improves quality, mitigates risk and shortens schedule times for content conversion projects.

Solutions for SAP Customers

Product Lifecycle Management

mySAP™ Product Lifecycle Management (mySAP PLM) provides the most comprehensive end-to-end solution available to help manage the product lifecycle at every stage from design to disposal.

Stilo is one of the UK's leading specialists in mySAP PLM, delivering innovative and practical solutions to many of the leading names in the European and global aerospace, defence, manufacturing, pharmaceutical and telecommunications industries.

Document Management Solutions

Stilo has teamed up with market-leading solution providers to integrate, where necessary, proven tools and techniques at every stage of the document management process; from capturing, indexing, storage, retrieval, formatted output and archiving – saving time and money, boosting business process efficiency and helping customers get more out of their SAP systems.

Data Migration Services

Stilo provides a professional and cost-effective data migration service that ensures a coherent, consistent and effective process for transferring data into SAP systems.

Combining our proven best practices and templates with standard SAP tools and load methods, we can customise a data migration solution to suit customer specific needs – reducing the risks and costs involved, while helping to maximise the return from customer SAP investments.

Software Partners

In the UK Stilo is a reseller of solutions from Easy Software (UK) plc and SEAL Systems AG.

Solutions from SEAL Systems simplify and speed up the generation, administration and distribution of documents and technical papers. EasySoftware is the world's second largest provider of SAP data archiving and document capture solutions for SAP customers.

Outlook

The 2006 financial results are the best in Stilo's history, and the Company continues to evolve as a provider of enterprise solutions to corporate clients.

Operating in niche, expanding markets provides us with a firm foundation for growing the business in the future, and we anticipate continued improvement in the Company's performance during 2007. In addition, we will actively pursue acquisition and partnering opportunities that complement our growing range of products, services and solutions.

Barry Welck

Chairman

14 March 2007

DIRECTORS' REPORT

The Directors present their report together with the audited accounts of the Group and the Company for the year ended 31 December 2006.

Principal activitiy

The principal activity of the Group is the provision of specialist solutions for product lifecycle management, document management, data migration and e-Publishing.

Business Risk and Key Performance Indicators

In addition to the monthly management accounts and information that are produced and monitored against the company'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 company. The KPI's cover the following:

- Sales performance
- Debtors including ageing, debtor day trends and cash collection
- Human resources KPI's, employee numbers, including added value and health and safety monitors
- Professional staff utilisation rates
- Costs and overheads

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

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

Market conditions – close working relations are maintained with both the company'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 company'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 company.

Fixed assets – authority limits set by the Board are in place for the purchase of fixed assets combined with appropriate security arrangements and insurance cover.

Debtors and credit risk – the principal credit risk arises from trade debtors. 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 company deals in several currencies and maintains bank accounts in each currency dealt in. The company 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 £437,000 (2005: £535,000). The Directors do not recommend the payment of a dividend (2005: £nil).

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 pages 8 to 9.

Substantial shareholdings

At 8 March 2007 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
M S Pike	4,084,416	4.08
S J Buswell	4,084,416	4.08
S C Healey	3,384,416	3.38
Professor E R Pike	4,187,416	4.18
Mossland Limited	3,800,000	3.79
Marlborough Fund Managers (Hargreaves Hale)	5,000,000	4.99
K Jones and Babken Limited (a company controlled by K Jones)	4,650,000	4.64
N Parkin and Proceed Holdings Limited	4,500,000	4.49

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply these consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and to enable us to ensure that the accounts comply with the Companies Act 1985. The Directors 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 maintenance and integrity of the Group's website is the responsibility of the directors; the work of the auditors does not involve the consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the web site.

Political and charitable contributions

During the year the Group made donations of £nil (2005: £nil) to local charities. The Group made no political donations (2005: £nil).

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 2006 the Group's trade creditors represented 39 days' purchases (2005: 37 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 auditors

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 auditors are 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 auditors are aware of that information

Auditor

The auditor, Baker Tilly, have expressed their willingness to continue in office and a resolution for their re-appointment in accordance with the provisions of Section 385 of the Companies Act 1985 will be proposed at the Annual General Meeting.

Approved by the Directors and signed on their behalf

Richard Alsept
Company Secretary

14 March 2007

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 whereunder 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' remuneration (audited)

Details of individual Directors' remuneration for the year are as follows:

	Salary and fees £'000	Other benefits £'000	Pension £'000	Bonus £'000	**2006 Total £'000**	2005 Total £'000
Executive						
L Burnham	121	2	11	–	**134**	139
R J Alsept (resigned 30 September 2005)	–	–	–	–	**–**	21
Non-executive						
B H Welck	14	–	–	–	**14**	14
D Ashman	–	–	–	–	**–**	–
	135	2	11	–	**148**	174

Directors' interests (audited)

The interests of the Directors at 31 December 2006 in the shares of the company were as follows

	31 December 2006 Number of ordinary shares	1 January 2006 Number of ordinary shares
Executive		
L Burnham*	**3,000,000**	–
Non-executive		
D Ashman	**7,900,000**	7,900,000
B H Welck	**2,125,000**	2,125,000

* through a self invested pension plan

Share option scheme (audited)

At 31 December 2006 the following share options were held by Directors:

	1 January 2006	Number granted in the year	Number cancelled in the year	31 December 2006	Exercise price	Date from which exercisable	Expiry date
L Burnham	1,800,000	–	–	1,800,000	3p*	17 March 2005	No expiry
L Burnham	800,000	–	–	800,000	2.5p**	14 April 2004	No expiry

* exercisable as follows:

600,000 exercisable if the closing mid-market price of the shares is not less than 7.5p per share

600,000 exercisable if the closing mid-market price of the shares is not less than 9p per share

600,000 exercisable if the closing mid-market price of the shares is not less than 18p per share

** exercisable if the closing mid-market price of the shares is not less than 6p per share

The market price of the Company's shares at the end of the financial year was 2.375p and the range of the market prices during the year ended 31 December 2006 was between 1.75p 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

14 March 2007

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

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 £11 million 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:

Richard Alsept – *Company Secretary and Chief Financial Officer*

Richard is a qualified Chartered Accountant. After graduating from Durham University with an Honours degree in Economics, he trained and qualified as an accountant with Touche Ross & Co. He then spent a number of years in general practice dealing with all aspects of owner managed businesses before becoming a financial director in various industries. In 2002, Richard formed his own accountancy practice specialising in accounting, taxation and financial direction. Through this practice, he became involved with Stilo in October 2002 as Chief financial Officer and subsequently also became Company Secretary in 2003.

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REGISTRAR
Capita IRG Plc
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Beckenham
Kent BR3 4TU

CORPORATE GOVERNANCE

Compliance

As the Company is listed on the Alternative Investment Market (AIM), it is not required to comply with the provisions set out in the revised 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 10.

The revised 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 auditors 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.

INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report to the Shareholders of Stilo International plc

We have audited the financial statements on pages 14 to 26.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements, the information given in the directors' report includes that specific information presented in the chairman's statement that is cross referred from the "Review of business" section of the directors' report and the information on directors' interests presented in the remuneration report that is cross referred to from the "Directors and their interests" section of the directors' report.

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

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' Report, the Chairman's Statement, the Remuneration Report, the Directors and Officers, the Advisers and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and parent company's affairs as at 31 December 2006 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

BAKER TILLY
Registered Auditor
Chartered Accountants

1 Georges Square
Bath Street
Bristol BS1 6BP

14 March 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2006

	Note	2006 £'000	2006 £'000	2005 £'000	2005 £'000
Turnover	2	**2,264**		2,099	
			2,264		2,099
Cost of sales			**(157)**		(83)
Gross profit			**2,017**		2,016
Administrative expenses – normal			**(2,395)**		(2,510)
– exceptional	4		**(169)**		(73)
Operating loss	4	**(457)**		(567)	
			(457)		(567)
Exceptional item – division closure costs			**–**		(28)
Interest receivable			**4**		8
Loss on ordinary activities before taxation			**(453)**		(587)
Taxation	5		**16**		52
Loss on ordinary activities after taxation			**(437)**		(535)
Loss for the financial year			**(437)**		(535)
Loss per share (pence)	7		**(0.5)**		(0.6)
Fully diluted loss per share (pence)	7		**(0.5)**		(0.6)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2006

	2006 £'000	2005 £'000
Loss for the financial year	**(437)**	(535)
Exchange adjustment arising on the re-translation of the net assets of subsidiary undertakings	**(32)**	(15)
Total recognised losses for the financial year	**(469)**	(550)

All resultes are derived from continuing operations.

The notes on pages 17 to 26 form part of these accounts.

BALANCE SHEETS
as at 31 December 2006

		Group		Company	
		2006	2005	2006	2005
	Note	£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	*8*	**1,511**	1,606	**–**	–
Tangible assets	*9*	**37**	64	**–**	–
Investments	*10*	**–**	–	**1,652**	1,811
		1,548	1,670	**1,652**	1,811
Current assets					
Debtors	*11*	**574**	632	**–**	–
Cash at bank and in hand		**420**	373	**163**	192
		994	1,005	**163**	192
Creditors: amounts falling due within one year	*12*	**(727)**	(672)	**–**	–
Net current assets		**267**	333	**163**	192
		1,815	2,003	**1,815**	2,003
Capital and reserves					
Called up share capital	*13*	**5,523**	5,423	**5,523**	5,423
Shares to be issued	*13*	**45**	–	**45**	–
Share premium account	*14*	**5,485**	5,349	**5,485**	5,349
Merger reserve	*14*	**658**	658	**–**	–
Profit and loss account	*14*	**(9,896)**	(9,427)	**(9,238)**	(8,769)
Equity shareholders' funds		**1,815**	2,003	**1,815**	2,003

These accounts were approved by the Board of Directors and authorised for issue on on 14 March 2007 and signed on its behalf by:

Leslie Burnham
Chief Executive Officer

The notes on pages 17 to 26 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2006

	Notes	2006 £'000	2006 £'000	2005 £'000	2005 £'000
Net cash outflow from operating activities	*16(a)*		**(86)**		(320)
Returns on investments and servicing of finance					
Interest received		**4**		8	
Net cash inflow from returns on investments and servicing of finance			**4**		8
Taxation					
Tax credit received			**57**		50
Capital expenditure					
Purchase of tangible fixed assets		**(11)**		(19)	
Net cash outflow from capital expenditure			**(11)**		(19)
Acquisitions and disposals					
Goodwill purchased		**(108)**		(5)	
Net cash outflow from acquisitions and disposals			**(108)**		(5)
Net cash outflow before management of liquid resources and financing			**(144)**		(286)
Management of liquid resources					
(Increase)/decrease in short term deposits			**(8)**		227
Financing					
Issue of ordinary share capital		**200**		–	
Share issue costs		**(9)**		–	
			191		–
Increase/(decrease) in cash	*16(c)*		**39**		(59)

The notes on pages 17 to 26 form part of these accounts.

1. Accounting policies

Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable UK accounting standards. The following principal accounting policies have been consistently applied.

Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiary undertakings. All inter-company transactions and balances have been eliminated.

Turnover and revenue recognition

Turnover represents the value of goods and services supplied and is stated net of value added tax. Contract income represents the value of contracts, which were completed during the year, as well as the estimated value of partially completed contracts at 31 December 2006.

Intangible fixed assets

In accordance with the requirements of FRS 10 "Goodwill and Intangible Assets" goodwill previously purchased is capitalised and amortised in equal annual instalments over its estimated useful life of ten years. The goodwill acquired during the year ended 31 December 2004 is amortised over its estimated useful life of three years. The goodwill acquired during the year ended 31 December 2006 will be amortised over its estimated useful life of 10 years, although no charge has been made in the year of acquisition.

Tangible fixed assets

The cost of the tangible fixed assets, net of realisable residual value, is depreciated in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation used are as follows:

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

Investments

Investments held as fixed assets are stated at cost, less provision for any diminution in value.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account except those arising on consolidation which are taken to reserves.

1. Accounting policies *continued*

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.

Leases

Rentals under operating leases are charged to the profit and loss account as they accrue.

Research and development

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

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.

Pension costs

Payments to defined contribution pension schemes are charged to the profit and loss account in the year in which they relate.

Share based payments

The Group has applied the requirements of FRS 20 Share Based Payments. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006.

Equity-settled share based payments are measured at fair value (including the effect of non market-based vesting conditions) at the date of grant. The fair value is expressed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. Fair value is measured by use of the Black-Scholes pricing model.

2. Turnover and segmental analysis

Analysis by class of business

The Group has one class of business, that of selling computer software and services.

Analysis by geographical segment

The analysis by geographical area of the Group's turnover is as follows:

		2006			2005	
	Sales by destination £'000	**Results before tax £'000**	**Net assets £'000**	Sales by destination £'000	Results before tax £'000	Net assets £'000
United Kingdom	**430**	**(565)**	**2,045**	39	(580)	2,361
Rest of Europe	**475**	**–**	**–**	802	–	–
North America	**1,042**	**112**	**(230)**	952	(7)	(358)
Asia	**279**	**–**	**–**	297	–	–
South America	**–**	**–**	**–**	2	–	–
South Africa	**6**	**–**	**–**	–	–	–
Australasia	**32**	**–**	**–**	7	–	–
	2,264	**(453)**	**1,815**	2,099	(587)	2,003

3. Staff costs

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

	2006 £'000	2005 £'000
Wages and salaries	**1,210**	1,244
Redundancy costs	**88**	73
Social security costs	**175**	183
Pension contributions	**20**	12
	1,493	1,512

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

	2006 No.	2005 No.
Research and development	**3**	7
Sales, marketing and services	**18**	16
Management and administration	**6**	7
	27	30

The number of persons employed at 31 December 2006, including non-executive Directors, was 30.

Directors' emoluments

	2006 £'000	2005 £'000
Salary and fees	**135**	163
Pension contributions	**11**	11
	146	174

One Director (2005: one) was accruing a benefit under a defined benefit scheme.

4. Operating loss

Operating loss is stated after charging:

	2006 £'000	2005 £'000
Depreciation of owned tangible fixed assets	**38**	38
Amortisation of intangible fixed assets	**293**	301
Operating lease rentals		
– Land and buildings	**143**	151
– Other	**24**	46
Research and development	**168**	350
Auditors' remuneration		
– Audit fees	**36**	34
– Non audit services	**14**	3
Exceptional items – redundancy costs	**88**	73
– office closure costs	**10**	–
– contract losses	**71**	–

4. Operating loss *continued*

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

	2006 £'000	2005 £'000
Baker Tilly		
Fees in respect of the Company's annual accounts – year of audit	**21**	20
Grant Thornton		
Fees in respect of a subsidiary's annual accounts – year of audit	**10**	10
ECG		
Fees in respect of a subsidiary's annual accounts – year of audit	**5**	4
Baker Tilly		
Other services – interim report	**2**	2

5. Taxation

(a) Current year tax credit

	2006 £'000	2005 £'000
Overseas taxation	**(16)**	(57)
Over provision in earlier years	**–**	5
	(16)	(52)

(b) Tax reconciliation

The tax assessed for the year differs from the small companies' rate in the UK (19%). The differences are explained below:

	2006 £'000	2005 £'000
Loss on ordinary activities before tax	**(453)**	(587)
Tax at 19% (2005: 19%)	**(86)**	(112)
Effects of:		
Expenses not deductible for tax purposes	**3**	7
Timing differences	**31**	(13)
Tax losses	**52**	118
Adjustments to tax charge in respect of previous years	**–**	5
Research and development tax credit	**(16)**	(57)
Current tax credit for the year	**(16)**	(52)

There are tax losses of approximately £5.2 million (2005: £5.1 million) available for carrying forward against future profits of Group companies

6. Profit attributable to parent company

The loss for the financial year dealt with in the accounts of Stilo International plc was £469,000 (2005: £2,755,000). As provided for by section 230 of the Companies Act 1985, no profit and loss account is presented in respect of the parent company.

7. Loss per share

Loss per share is based on the loss for the financial year of £437,000 (2005: £535,000), and the weighted average number of ordinary shares in issue during the year of 91,936,803 (2005: 90,228,470). The fully diluted earnings per share takes account of outstanding options which results in a weighted average number of shares in issue during the year of 91,936,803 (2005: 90,228,470).

8. Intangible fixed assets

Goodwill – Group	2006 £'000
Cost	
At 1 January 2006	2,712
Addition	198
At 31 December 2006	**2,910**
Amortisation	
At 1 January 2006	1,106
Charge for the year	293
At 31 December 2006	**1,399**
Net book value	
At 31 December 2006	**1,511**
At 31 December 2005	1,606

The goodwill arising upon the acquisition of Stilo Corporation is being charged to the profit and loss account over the estimated useful life of ten years.

The goodwill arising upon the acquisition of the Content Engineering Division of Xia Systems Corporation is being charged to the profit and loss account over the estimated useful life of three years.

On 31 July 2006 the Group acquired the business and assets of the Engineering Solutions business of Proceed Holdings Limited. Goodwill of £198,000 arose from this acquisition in this year. Total consideration is as follows:

Paid in year ended 31 December 2006	£108,000
Contingent Consideration	£340,000
Total Consideration	£448,000

All of the consideration will be paid in cash. Of the total cash consideration, £240,000 will be applied by the vendors to subscribe for 12,000,000 new 1p Ordinary Shares in the Company at 2p per Ordinary Share.

Of the contingent consideration, £90,000 has been provided in these accounts as there is a reasonable expectation that the first performance target will be met.

9. Tangible fixed assets

Group	Office equipment £'000	Computer equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
At 1 January 2006	100	463	56	619
Additions	1	10	–	11
Disposals	(33)	–	(8)	(41)
At 31 December 2006	**68**	**473**	**48**	**589**
Depreciation				
At 1 January 2006	100	414	41	555
Charge for the year	1	25	12	38
Disposals	(33)	–	(8)	(41)
At 31 December 2006	**68**	**439**	**45**	**552**
Net book value				
At 31 December 2006	**–**	**34**	**3**	**37**
At 31 December 2005	–	49	15	64

10. Investments

Company	Investments in subsidiaries £'000	Loans to subsidiaries £'000	Total £'000
Net book value			
At 1 January 2006	994	817	1,811
Additions	–	12	12
Impairment	(171)	–	(171)
At 31 December 2006	**823**	**829**	**1,652**

The net book value of investments is stated after impairment write-downs of £2,759,000 (2005: £2,588,000).

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 & distribution of software
Stilo Corporation[1]	Canada	100%	Sale & distribution of software
Stilo SARL[2]	France	100%	Sale & distribution of software
Stilo Inc[2]	USA	100%	Dormant

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

11. Debtors

	Group		Company	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
Trade debtors	**479**	476	**–**	–
Other debtors	**38**	80	**–**	–
Prepayments	**57**	76	**–**	–
	574	632	**–**	–

Included within other debtors are tax credits receivable of £16,000 (2005: £57,000).

12. Creditors: amounts falling due within one year

	Group		Company	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
Trade creditors	**125**	98	**–**	–
Other creditors and accruals	**117**	73	**–**	–
Deferred income	**436**	446	**–**	–
Other taxation and social security	**49**	55	**–**	–
	727	672	**–**	–

Included within deferred income are amounts of £80,000 (2005: £61,000) which are due after more than one year.

13. Share capital

	2006	2005
	£'000	£'000
Authorised		
247,943,770 Ordinary shares of 1p each	**2,479,438**	2,479,438
452,056,230 Deferred shares of 1p each	**4,520,562**	4,520,562
70,000,000 Ordinary shares of 10p each	**–**	–
Allotted, called up and fully paid		
100,228,470/90,228,470 Ordinary shares of 1p each	**1,002,285**	902,285
452,056,230 Deferred shares of 1p each	**4,520,562**	4,520,562
50,228,470 Ordinary shares of 10p each	**–**	–
Shares to be issued		
4,500,000 Ordinary shares of 1p each	**45,000**	–

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.

During the year, the Company issued 10,000,000 Ordinary Shares for cash at 2p per share.

The Ordinary shares to be issued are in respect of contingent consideration for the purchase of the assets of Proceed Engineering Solutions Limited (see note 8).

13. Share capital *continued*

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

Date exercisable	As at 1 January 2006	Grant	Cancelled	**As at 31 December 2006**	Exercise price
Unapproved Scheme:					
– from 14 April 2004					
to 14 April 2014	1,289,020	–	(343,250)	**945,770**	2.5p*
– from 14 April 2005					
to 14 April 2015	140,000	–	(100,000)	**40,000**	3p*
– from 17 March 2005					
to 17 March 2012	3,000,000	–	–	**3,000,000**	3p**
– from 16 October 2006					
to 16 October 2016	–	75,000	–	**75,000**	2.125p*
EMI Scheme:					
– from 14 April 2004					
to 14 April 2014	20,000	–	–	**20,000**	2.5p*
– from 14 April 2004					
(no expiry date)	800,000	–	–	**800,000**	2.5p*
– from 17 March 2005					
(no expiry date)	1,800,000	–	–	**1,800,000**	3p**
– from 16 October 2006					
to 16 October 2016	–	380,000	–	**380,000**	2.125p**

* Not exercisable until share price reaches 6p.

** One third exercisable when share price reaches 7.5p, one third when share price reaches 9p, and one third when share price reaches 18p.

14. Statement of movement in shareholders' funds

	Called up share capital £'000	Shares to be issued £'000	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
Group						
At 1 January 2005	5,423	–	5,349	658	(8,877)	2,553
Exchange adjustments	–	–	–	–	(15)	(15)
Loss for the financial year	–	–	–	–	(535)	(535)
At 1 January 2006	5,423	–	5,349	658	(9,427)	2,003
Exchange adjustments	–	–	–	–	(32)	(32)
New shares issued	100	45	145	–	–	290
Share Issue Costs	–	–	(9)	–	–	(9)
Loss for the financial year	–	–	–	–	(437)	(437)
At 31 December 2006	**5,523**	**45**	**5,485**	**658**	**(9,896)**	**1,815**

14. Statement of movement in shareholders' funds *continued*

	Called up share capital £'000	Shares to be issued £'000	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
Company						
At 1 January 2005	5,423	–	5,349	–	(6,014)	4,578
Loss for the financial year	–	–	–	–	(2,755)	(2,755)
At 1 January 2006	5,423	–	5,349	–	(8,769)	2,003
New shares issued	100	45	145	–	–	290
Share issue costs	–	–	(9)	–	–	(9)
Loss for the financial year	–	–	–	–	(469)	(469)
At 31 December 2006	**5,523**	**45**	**5,485**	**–**	**(9,238)**	**1,815**

15. Commitments under operating leases

At 31 December 2006, the Group was committed to making the following payments during the next year in respect of operating leases:

	2006 Land and buildings £'000	**2006 Other £'000**	2005 Land and buildings £'000	2005 Other £'000
Lease expiring:				
– within 1 year	**66**	**11**	30	4
– within 1-2 years	**–**	**1**	73	–
– within 2-5 years	**–**	**4**	–	18

16. Reconciliation of cash flows

(a) Reconciliation of operating loss to net cash outflow from operating activities:

	2006 £'000	2005 £'000
Operating loss	**(457)**	(567)
Depreciation charges	**38**	38
Amortisation of goodwill	**293**	301
Decrease/(increase) in debtors	**17**	(74)
Increase/(decrease) in creditors	**23**	(18)
Net cash outflow from operating activities	**(86)**	(320)

(b) Reconciliation of net cash flow to movement in net funds:

	2006 £'000	2005 £'000
Increase/(decrease) in cash in the year	**47**	(286)
Movement in net funds in year	**47**	(286)
Net funds at 1 January 2006	**373**	659
Net funds at 31 December 2006	**420**	373

16. Reconciliation of cash flows *continued*

(c) Analysis of net debt

	At 1 January 2006 £'000	Cash flow £'000	**At 31 December 2006 £'000**
Cash at bank and in hand	180	39	**219**
Short term deposits	193	8	**201**
	373	47	**420**

Short-term deposits are included within cash at bank and in hand in the balance sheet. They have a maturity of more than 24 hours but less than 12 months, and are repayable on demand subject, in some instances, to the repayment of certain expenses.

17. Related party transactions

There were no related party transactions during the year.

18. Bank guarantees

There were no bank guarantees given by the Company at 31 December 2006.

19. Financial instruments

The numeric disclosures in this note deal with financial assets and liabilities as defined in FRS13 "Derivatives and other financial instruments".

As permitted by FRS 13, short-term debtors and creditors have been excluded from the disclosures. Certain financial assets such as investments in subsidiary companies are also excluded from the scope of these disclosures.

Liquidity risk

The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of borrowings and financial assets with a range of maturities.

Interest rate profile

The Group has no financial assets other than sterling cash deposits of £0.4m (2005: £0.4m). The sterling cash deposits comprise deposits placed on the money market, for seven day or monthly periods, with rates fixed for the duration of the deposit.

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities as at 31 December 2006 is given in note 12.

Borrowing facilities

The Group had no undrawn committed borrowing facilities at 31 December 2006 or 31 December 2005.

Fair values

There is no material difference between the book value and the fair value of the Group's financial assets or liabilities.

Market price

Group funds are invested in deposit accounts with the objective of maintaining a balance between accessibility of funds and competitive rates of return.

Currency exposure

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.

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 17 May 2007 at 11.30 a.m. 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 2006, together with the Directors' report and Auditors report thereon.

Directors

Resolution 2: To re-elect as a Director, David Ashman, who retires in accordance with Regulation 23.1 of the Articles of Association of the Company and being eligible, offers himself for re-election as a Director of the Company.

Auditors

Resolution 3: To reappoint Baker Tilly, Chartered Accountants and Registered Auditors as Auditors to the company 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 and 6 as special resolutions.

Resolution 4:

4.1 that, in substitution for all existing authorities to the extent unused, the Directors be and they are hereby and generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 (as amended) (the 'Act') to exercise all of the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) within the terms of the restrictions and provisions following, namely:

- (a) provided that this authority (unless previously revoked, varied or renewed) shall expire at the conclusion of the Annual General Meeting of the Company next following the passing of this resolution, and in any event on 31 August 2008; and
- (b) this authority shall be limited to the allotment of relevant securities (as defined by Section 80(2) of the Act) up to an aggregate nominal value of £270,617 (representing approximately 27% of the issued equity share capital of the Company as at the date of the Notice of this meeting).

4.2 for the purpose of sub-paragraph 4.1 above:

- (a) the said authority shall allow and enable the Company to make an offer or agreement before the expiry of that authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement notwithstanding the expiry of such power; and
- (b) words and expressions defined in or for the purpose of Part IV of the Companies Act 1985 shall bear the same meaning therein

Resolution 5: that, subject to and conditional upon, the passing of Resolution 4 set out in the Notice of this meeting, in substitution for any existing power under Section 95 of the Act (but without prejudice to the exercise of any such authority prior to the date hereof) the Directors be and are hereby empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94(2) of the Act) for cash, pursuant to the general authority conferred upon the Directors in resolution 4 above, as if Section 89(1) of the Act did not apply to any such allotment, provided that the power hereby granted:

(a) shall be limited to:

- (i) the allotment of equity securities in connection with a rights issue or other offering in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to their existing holdings of such shares, subject to such exclusions for other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlement, statutory restrictions or legal or practical problems under or resulting from the applications of the laws of any territory or the requirements of any recognised regulatory body or stock exchange in any territory; and
- (ii) the allotment of equity securities (other than pursuant to sub-paragraph (i) above) of up to an aggregate nominal amount of £102,228 (representing approximately 10% of the issued equity share capital of the Company as at the date of the Notice of this meeting).

(b) shall (unless previously revoked, varied or renewed) expire at the conclusion of the Annual General Meeting of the Company next following the passing of this resolution, and in any event on 31 August 2008.

Resolution 6: that, subject to and conditional upon, the passing of Resolution 4 set out in the Notice of this meeting and, in addition to Resolution 5 above, the Directors be and are hereby empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94(2) of the Act) for cash, pursuant to the general authority conferred upon the Directors in resolution 4 above, as if Section 89(1) of the Act did not apply to any such allotment, provided that the power hereby granted:

(a) shall be limited to the allotment of up to an aggregate of 4,500,000 ordinary shares of 1p each to Proceed Holdings Limited in connection with the purchase by Stilo Technology Limited of the business and certain assets of Proceed Holdings Limited and Proceed Engineering Solutions Limited; and

(b) shall (unless previously revoked, varied or renewed) expire at the conclusion of the Annual General Meeting of the Company next following the passing of this resolution, and in any event on 31 August 2008.

By order of the Board

Richard Alsept
Company Secretary

14 March 2007

NOTES:

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 the Company specifies that to be entitled to attend and vote at the meeting (and for the purposes of the determination by the Company of the number of votes they may cast), holders of ordinary shares must be entered on the relevant register of securities by 11.30 a.m. on 15 May 2007. Changes to entries on the relevant register of securities after 11.30 a.m. on 15 May 2007 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
2. A member or the duly authorised representative of a corporation entitled to attend and vote at the meeting may appoint one or more proxies to attend and (on a poll) vote instead of him. A proxy need not be a member of the Company.
3. A form of proxy is enclosed. To be effective, it must be deposited together with the power of attorney or authority, if any, under which it is executed (or a duly certified copy of any such power or authority) at the office of the Company's registrars so as to be received not later than 48 hours before the time appointed for holding the annual general meeting. Completion of the proxy does not preclude a member from subsequently attending and voting at the meeting in person if he or she so wishes.
4. Copies of the following documents are available for inspection at the registered office of the Company during normal business hours (Saturdays and public holidays excepted) from the date of this notice until the conclusion of the AGM, and are also available for inspection at the place of the AGM from 15 minutes before the start of the AGM until conclusion of the AGM:
   (a) the register of interests of the directors and their families in the share capital of the Company; and
   (b) contracts of service of directors with the Company or with any of its subsidiary undertakings.

Explanatory notes to the resolutions

Ordinary Business

Resolution 1: To receive and adopt the Company's annual accounts.
The directors present the accounts and the reports of the directors and auditors for the year ended 31 December 2006.

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 3 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 David Ashman, having last been re-elected on 18 May 2005 is retiring and offering himself for re-election.

Resolution 3: Re-appointment and remuneration of auditors

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

Resolution 4: Authority to allot shares

Although the Company's articles of association provide that all the unissued shares shall be at the disposal of the directors, section 80 of the Companies Act 1985 requires that the authority of the directors to allot relevant securities shall be subject to the approval of the shareholders in general meeting. Accordingly, shareholders are being asked to renew, until the conclusion of the next annual general meeting or, in any event, 31 August 2008, whichever is the earlier, the directors' authorisation to allot the Company's unissued shares up to a nominal amount of £270,617 (which represents 27,061,700 ordinary shares and, as at 14 March 2007, 27 per cent of the issued ordinary share capital of the Company. The directors have no present intention of allotting shares pursuant to this authority.

Resolutions 5 and 6: Disapplication of pre-emption rights

Section 89 of the Companies Act 1985 contains pre-emption rules by which, unless the shareholders determine otherwise by special resolution, ordinary shares to be issued for cash must be offered to shareholders in proportion to their existing holdings. In practice, it is desirable to modify these pre-emption rules to a limited extent, for example so as to allow rights issues to existing shareholders in the conventional form (rather than the form which would be required by the Companies Act) and to avoid infringement of overseas securities laws where some shareholders are resident overseas. It is proposed to renew the directors' power under the Company's articles of association to allot equity securities otherwise than in accordance with these pre-emption rules for a period to expire on the date of the next annual general meeting or 31 August 2008, whichever is the earlier, provided that any equity securities allotted for cash pursuant to such a power be limited to a nominal amount of £100,228 (which represents 10,022,847 ordinary shares and, as at 7 March 2007, 10 per cent of the issued ordinary share capital of the Company) .

In July 2006, the Company purchased the business and certain assets of Proceed Holdings Limited and Proceed Engineering Solutions Limited. The second part of the consideration for that purchase (which is dependent upon certain performance criteria) is the issue of 4,500,000 ordinary 1p shares to Proceed Holdings Limited in August 2007. There is a reasonable expectation that this performance criteria will be met, and the Directors seek approval under Resolution 6 for the potential issue of these shares.

stilo international plc

FORM OF PROXY

FOR USE AT THE ANNUAL GENERAL MEETING OF STILO INTERNATIONAL ON 17 MAY, 2007

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, (see note (3) below)

____

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at the offices of Baker Tilley, 2 Bloomsbury Street, London WC1B 3ST on Thursday, 17 May 2007 at 11.30 a.m. and any adournment 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**
1. To receive and adopt the Directors' Report and Accounts for the year ended 31 December 2006.		
2. To re-appoint David Ashman as a Director.		
3. To re-appoint Baker Tilly as Auditors to the Company and to authorise the Directors to fix their remuneration.		
Ordinary Resolution		
4. To authorise the Directors to allot relevant securities.		
Special Business		
5. To authorise the Directors to allot equity securities and to disapply statutory pre-emption rights in relation to the issue of equity securities.		
6. To authorise the Directors to allot up to 4,500,000 ordinary shares of 1p each to Proceed Holdings Limited.		

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 ____ 2007

Notes:

1. To be effective this form of proxy (together with the power of attorney (if any) under which it is signed (or a notarially certified copy of that power of attorney), must be lodged with the Company's Registrars, Proxy Processing Centre, Telford Road, Bicester, OX26 4LD not less than 48 hours before the time appointed for the holding of the Annual General Meeting or any adjournment of the Meeting.
2. Any alteration to this form of proxy should be initialled.
3. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, you should complete in block capitals his or her full name and address in the space provided and delete the words "the Chairman of the Meeting or" and initial these amendments. Such proxy need not be a member of the Company.
4. In the case of joint holders, the signature of any holder will be sufficient but the names of the joint holders should be stated. If more than one joint holder votes in person or by proxy, the vote of the senior holder who tenders a vote whether by proxy or in person shall be accepted to the exclusion of the votes of the other joint holders, seniority being determined by the order in which their names stand in the register of members.
5. In the case of a corporation, the proxy must be the common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation as a deed.
6. Completion of the form of proxy will not preclude a member from attending and voting in person at the Meeting if the member so wishes.
7. Every holder of ordinary shares present in person and entitled to vote shall have one vote on a show of hands and every holder of ordinary shares present in person or by proxy shall on a poll be entitled to one vote for every ordinary share held.
8. A member entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and vote on his behalf and a proxy need not be a member of the Company. If a member appoints more than one proxy the form of proxy must specify the number of ordinary shares in respect of which the proxy is entitled to vote and no member is permitted to appoint more than one proxy (save in the alternate) to vote in respect of any one ordinary share held by the member.

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BUSINESS REPLY SERVICE
Licence No. RRHB-RSXJ-GKCY

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Proxy Processing Centre
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