Annual Report and Accounts | for the year ended 31 December 2008

stilo
international plc

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CHAIRMAN'S STATEMENT

I am pleased to announce Stilo's results for the twelve months ended 31 December 2008 and to report upon the continued progress made by the Group during the year.

We have continued to make excellent progress during the 12 months ended 31 December 2008, reporting record sales revenues and profits, two new product releases, one major software upgrade, several significant professional services contract wins and a steadily improving cash position.

Strategy

Stilo provides software and professional services to large organisations across a broad range of industry sectors, including Aerospace and Defence, Engineering, High Tech, Publishing and Government.

We operate in two key market sectors: the XML content processing market supporting enterprise publishing solutions, and the SAP systems market for product lifecycle management and document management solutions.

The XML content processing market is driven by the growing requirement for large organisations to aggregate content from disparate sources and publish complex information, technical and non-technical, to the web. 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.

The SAP market for product lifecycle management and document management solutions is driven by a requirement for organisations to better manage and integrate their business processes and workflow, tracking product information from initial design through to manufacture, delivery and invoice. Our customers are predominantly engineering companies operating in the Aerospace and Defence sector, and include Agusta Westland, BAe Systems and EADS.

Operations

As at 31 December 2008, the group employed 22 full-time employees, with 12 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 business is centred in Canada, with the professional services team serving particularly the requirements of North American customers.

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

Results

The Group has continued to make progress for the eighth successive year since its incorporation in 2000.

In 2008 the results show an operating profit of £331,000 (2007: operating loss £62,000). There was a profit from continuing operations after taxation of £388,000 (2007: £94,000). This is a substantial improvement over the previous year, and a record for the Group.

Total sales revenues for the period increased by 27% to £3,086,000 (2007: £2,436,000). Administrative expenses increased by 5% in the year to £2,244,000 (2007: £2,128,000).

Sales growth was primarily driven by increases in professional services revenues across the Group, and in particular, within the SAP division, where a strong performance in the second half of the year resulted from highly competitive contract wins at Agusta Westland, BAe Systems and EADS. Our success in professional services engagements reflects the very high level of technical expertise of our employees in all target business areas.

The Group had a cash balance of £546,000 as at 31 December 2008 (31 December 2007: £236,000).

In June 2008 two directors (L. Burnham and D. Ashman) collectively subscribed for 5,000,000 new 1p Ordinary shares in Stilo at 1.8p per share.

The accompanying results for the year ended 31 December 2008 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and now required for AIM companies.

Development

We continue to regard the development of intellectual property as essential for driving the long-term growth and profitability of the Company. The ongoing development of our flagship product, OmniMark, is undertaken from Canada, while the development of Migrate, a new, ground-breaking, online content conversion service, is directed from Europe. Research and development expenditure for the year was £310,000 (2007: £245,000).

A professional services engagement undertaken with ABX Air Inc., resulted in the release in April 2008 of JETView, a digital publishing solution for airline maintenance.

In the SAP business division, we have now released the first three of a planned range of 'solutions accelerators', all of which have arisen as a result of professional services engagements undertaken with our customers.

Products and Solutions

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. OmniMark v9 was released in December 2008.

Stilo interactive Technical Information Publisher (iTIP)

Originally developed for the Canadian Military, Stilo's iTIP has evolved over a ten year period as a proven approach to distributing complex technical information to widely-distributed user communities, using simple web browsers. iTIP provides a complete solution for organisations that create, manage and deliver technical information across the full product lifecycle, including mission-critical equipment systems in the aerospace, defence, automotive, transportation, manufacturing and engineering sectors.

In April 2008 Stilo released JETView, a digital publishing solution for airline maintenance documentation, developed in association with ABX Air Inc., and based upon the iTIP publishing framework.

Stilo Migrate

Stilo Migrate, the world's first on-demand content migration service, is the embodiment of Stilo's extensive content engineering expertise and advanced content processing technology. It is set to revolutionise the growing market for content migration services. The initial beta test version was released in December 2008, to very good customer acclaim. Accessible 24x7 from anywhere in the world, users are able to upload source documents over the internet and migrate content to target XML formats, on a pay-as-you-use basis.

Outlook

In 2009 our revenues will be derived from software licence sales, software maintenance contracts, professional services and Stilo Migrate, our recently released Software as a Service (SaaS) for conversion of digital content to XML. Our customers are drawn from a broad range of markets, including Aerospace & Defence, Manufacturing, High Tech, Publishing and Government. With more than half of our sales revenues originating from North America and continental Europe, invoiced in US dollars and euros respectively, we are reasonably well protected from the adverse effects of weak sterling. These various factors combine to give the Board confidence that the Group has the resilience required to face the global economic challenges that lie ahead in 2009.

Barry Welck
Chairman

19 March 2009

DIRECTORS' REPORT

The Directors present their report together with the audited accounts of the Group and the Company for the year ended 31 December 2008.

Principal activity

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

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 geographically and by business segment. A detailed turnover and segmental analysis is contained in Note 2 on pages 22 and 23.
- Receivables, including ageing, debtor day trends and cash collection. Further information about receivables is given in Note 12 on page 29.
- 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 23 and 24.
- Costs and overheads, including monitoring variable costs such as sub-contractors, reviewing costs against plan, and forecasting short term expected variations in overheads.

A detailed review of activities and developments 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 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 profit for the year after taxation was £388,000 (2007: £94,000). The Directors do not recommend the payment of a dividend (2007: £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 and 9.

Substantial shareholdings

At 6 March 2009 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	26,070,850	23.76%
N Parkin	7,000,000	6.38%
HSDL Nominees Limited	6,373,096	5.81%
Pershing Nominees Limited	4,300,000	3.92%
Professor E R Pike	4,084,416	3.72%
S J Buswell	4,084,416	3.72%
TD Waterhouse Nominees (Europe) Limited	3,590,367	3.28%
S C Healey	3,384,416	3.08%

Directors' interests in the shares of the Company are shown in the Remuneration Report on pages 8 and 9.

Directors' responsibilities

The directors are responsible for preparing the Annual 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 have elected to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and have elected to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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 1985 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.

The company financial statements are required by law to 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) for the group financial statements, state whether they have been prepared in accordance with IFRSs adopted by the EU; and for the company financial statements state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the company financial statements;

(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 proper accounting records which 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 requirements of the Companies Act 1985. 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 company's 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 (2007: £150) to local charities. The Group made no political donations (2007: £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 2008 the Group's trade payables represented 42 days' purchases (2007: 38 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

19 March 2009

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' remuneration (audited)

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

	Salary and fees £'000	Other benefits £'000	Pension £'000	Bonus £'000	**2008 Total £'000**	2007 Total £'000
Executive						
L Burnham	135	3	12	40	**190**	144
Non-executive						
B H Welck	14	–	–	–	**14**	14
D Ashman	–	–	–	–	**–**	–
	149	3	12	40	**204**	158

Directors' interests (audited)

The interests of the Directors at 31 December 2008 in the shares of the company were as follows:

	31 December 2008 Number of ordinary shares	1 January 2008 Number of ordinary shares
Executive		
L Burnham*	**5,000,000**	3,000,000
Non-executive		
D Ashman	**10,900,000**	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 2008 the following share options were held by Directors:

	1 January 2008	Number granted in the year	Number cancelled in the year	31 December 2008	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
L Burnham	–	2,600,000	–	2,600,000	1.5p	30 April 2011	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 2p and the range of the market prices during the year ended 31 December 2008 was between 1.25p and 2.925p.

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

19 March 2009

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. 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:

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.

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CORPORATE GOVERNANCE

Compliance

As the Company is listed on AIM, it is not required to comply with the provisions set out in the 2006 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 10.

The 2006 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.

INDEPENDENT AUDITOR'S REPORT

To the Members of Stilo International plc

We have audited the group and parent company financial statements on pages 14 to 40.

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 group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union ("EU"), and for preparing the parent company 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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement that is cross referred from the "Business Review, Risk and Key Performance Indicators" 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 Chairman's Statement, the Directors' Report, 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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements 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 UK AUDIT LLP
Registered Auditor
Chartered Accountants

Hartwell House
55-61 Victoria Street
Bristol BS1 6AD

19 March 2009

GROUP INCOME STATEMENT
for the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Revenue – continuing operations	2	**3,086**	2,436
Cost of sales		**(481)**	(240)
Gross profit		**2,605**	2,196
Administrative expenses		**(2,244)**	(2,128)
Exceptional expenses	4	**–**	(105)
Amortisation of intangible assets		**(30)**	(30)
Operating profit/(loss)	4	**331**	(67)
Finance Income	5	**2**	5
Profit/(loss) before tax		**333**	(62)
Income tax	6	**55**	156
Profit for the year attributable to the equity shareholders of the parent company		**388**	94
Earnings per share – basic	7	**0.36p**	0.09p
Earnings per share – diluted	7	**0.34p**	0.09p

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the year ended 31 December 2008

	2008 £'000	2007 £'000
Foreign currency translation differences	**64**	26
Net income recognised directly in equity	**64**	26
Profit for the year	**388**	94
Total recognised income and expense for the year attributable to the equity shareholders of the parent company	**452**	120

The notes on pages 17 to 36 form an integral part of these consolidated financial statements.

GROUP BALANCE SHEET

as at 31 December 2008

	Notes	2008 £'000	2007 £'000
Non-current assets			
Goodwill	*8*	**1,683**	1,671
Other intangible assets	*9*	**287**	224
Plant and equipment	*10*	**28**	32
Deferred tax assets	*11*	**131**	100
		2,129	2,027
Current assets			
Trade and other receivables	*12*	**958**	725
Income tax asset		**51**	56
Cash and cash equivalents	*13*	**546**	236
		1,555	1,017
Total Assets		**3,684**	3,044
Current liabilities			
Trade and other payables	*14*	**860**	765
Long Term liabilities			
Other payables	*15*	**33**	51
Total liabilities		**893**	816
Equity attributable to equity holders of the parent company			
Called up share capital	*16*	**5,618**	5,568
Share premium account	*18*	**5,524**	5,485
Merger reserve	*18*	**658**	658
Retained earnings	*18*	**(9,009)**	(9,483)
Total equity		**2,791**	2,228
Total Equity and Liabilities		**3,684**	3,044

These accounts were approved by the Board of Directors and authorised for issue on 19 March 2009 and signed on its behalf by:

Les Burnham

Chief Executive Officer

The notes on pages 17 to 36 form an integral part of these consolidated financial statements.

GROUP CASH FLOW STATEMENT

for the year ended 31 December 2008

	Notes	2008 £'000	2008 £'000	2007 £'000	2007 £'000
Cash flows from operating activities					
Profit/(loss) before taxation		**333**		(62)	
Adjustment for depreciation and amortisation		**50**		61	
Adjustment for investment income		**(2)**		(5)	
Adjustment for foreign exchange differences		**45**		11	
Adjustment for share-based payments		**22**		–	
Operating cash flows before movements in working capital		**448**		5	
Increase in trade and other receivables		**(233)**		(168)	
Increase in trade and other payables		**95**		89	
Cash generated from operations			**310**		(74)
Tax credit received			**26**		17
Net cash generated from operating activities			**336**		(57)
Cash flows from investing activities					
Finance income			**2**		5
Acquisition of intangible assets			**(93)**		(106)
Purchase of plant and equipment			**(24)**		(26)
Consideration on 'Proceed' assets acquisition			**–**		(90)
Net cash used in investing activities			**(115)**		(217)
Financing activities					
Issue of ordinary share capital			**90**		90
Share issue costs			**(1)**		–
Net cash from financing activities			**89**		90
Net increase/(decrease) in cash and cash equivalents			**310**		(184)
Cash and cash equivalents at beginning of year			**236**		420
Cash and cash equivalents at end of year	*13*		**546**		236

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

The notes on pages 17 to 36 form an integral part of these consolidated financial statements.

1. Accounting policies

(a) Basis of Preparation

Stilo International Plc is a public listed company, incorporated and domiciled in England. It is quoted on the Alternative Investment Market.

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 2008, and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

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 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.

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:

IFRS 8 – Operating Segments
IFRIC 13 – Customer loyalty programmes
IFRIC 14 – IAS19 – The limit on a Defined Benefit asset Minimum Funding Requirements and their interaction.
IFRIC 15 – Agreements for Construction of Real Estate
IFRIC 16 – Hedges of a Net Investment in a Foreign Operation
IFRIC 17 – Distributions of Non-cash Assets to Owners
IFRIC 18 – Transfer of Assets from Customers

Others:
Amendment to IAS 23 – Borrowing costs
Amendment to IAS 1 – Presentation of financial statements
Amendment to IFRS 3/IAS 27 – Business combinations project

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 when the relevant standards and interpretations come into effect.

(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.

1. **Accounting policies** *continued*

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.

(c) Revenue recognition

Revenue represents the fair value of goods and services supplied and is stated net of value added tax. Contract income represents the fair value of contracts, which were completed during the period, as well as the estimated fair value of partially completed contracts at 31 December 2008.

(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 Company, 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.

1. Accounting policies *continued*

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.

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% 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.

1. Accounting policies *continued*

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.

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.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

(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.

1. Accounting policies *continued*

(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.

(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 £93,000 (2007: £106,000) 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 further deferred tax asset of £31,000 (2007: £100,000) 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.

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

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns which are different from those of segments operating in other economic environments.

(s) Trade payables

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

2. Turnover and segmental analysis

At 31 December 2008, the group is organised on a worldwide basis into two main business segments:

- Content Processing: building high-performance content processing solutions that acquire, enrich and ultimately deliver content to enterprise information portals and supply chain partners.
- SAP solutions: providing consulting services to users of SAP ERP systems, specialising in the disciplines of Product Lifecycle Management and Document Management.

The segment results for the year ended 31 December 2008 are as follows:

	2008 Revenue £'000	2008 Profit/(loss) £'000	2007 Revenue £'000	2007 Profit/(loss) £'000
Content Processing	**1,757**	**490**	1,602	276
SAP solutions	**1,329**	**330**	834	24
Unallocated corporate expenses	**–**	**(489)**	–	(367)
Interest income	**–**	**2**	–	5
Income taxes	**–**	**31**	–	156
	3,086	**388**	2,436	94

	2008 Assets £'000	2008 Liabilities £'000	2008 Net assets £'000	2007 Assets £'000	2007 Liabilities £'000	2007 Net assets £'000
Content Processing	**2,825**	**643**	**2,151**	2,595	732	1,863
SAP solutions	**859**	**250**	**609**	449	84	365
	3,684	**893**	**2,760**	3,044	816	2,228

Other segmental information:

	2008 Capital Additions £'000	2008 Depreciation £'000	2008 Amortisation £'000	2007 Capital Additions £'000	2007 Depreciation £'000	2007 Amortisation £'000
Content Processing	**21**	**14**	**–**	18	28	–
SAP solutions	**3**	**6**	**30**	8	3	30

Analysis by geographical segment

At 31 December 2008, the Group's operations are located in the UK and in Canada. Operations previously located in Europe were closed during 2007 and were consolidated into the UK.

2. Turnover and segmental analysis *continued*

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

	2008 Sales by destination £'000	2008 Total Assets £'000	2008 Capital Expenditure £'000	2007 Sales by destination £'000	2007 Total Assets £'000	2007 Capital Expenditure £'000
United Kingdom	**978**	**1,100**	**3**	837	778	8
Rest of Europe	**869**	**–**	**–**	457	–	–
North America	**1,030**	**2,553**	**21**	961	2,266	18
Asia	**137**	**–**	**–**	158	–	–
South America	**40**	**–**	**–**	5	–	–
Africa	**–**	**–**	**–**	11	–	–
Australasia	**32**	**–**	**–**	7	–	–
	3,086	**3,684**	**24**	2,436	3,044	26

3. Staff costs

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

	2008 £'000	2007 £'000
Wages and salaries	1,477	1,434
Redundancy costs	–	53
Social security costs	144	153
Pension contributions	48	40
Share based payments	22	–
	1,691	1,680

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

	2008 No.	2007 No.
Research and development	**3**	3
Sales, marketing and services	**16**	20
Management and administration	**6**	6
	25	29

The number of persons employed at 31 December 2008, including non-executive Directors, was 22.

Directors' emoluments

	2008 £'000	2007 £'000
Salary, fees and benefits in kind	**192**	147
Pension contributions	**12**	11
	204	158

One director (2007: one) was accruing a benefit under a defined contribution scheme. More details of the remuneration paid to Directors can be found in the Remuneration Report on pages 8 and 9.

3. Staff costs *continued*

Highest Paid Director

	2008 £'000	2007 £'000
Salary and bonus	**175**	130
Pension contributions	**12**	11
Other benefits	**3**	3
	190	144

4. Operating profit/(loss)

Operating profit/(loss) is stated after charging:

	2008 £'000	2007 £'000
Depreciation of owned tangible fixed assets	**20**	31
Amortisation of intangible fixed assets	**30**	30
Operating lease rentals		
– Land and buildings	**83**	78
– Other	**6**	14
Research and development	**217**	139
Auditor's remuneration		
– Audit fees – parent company and consolidation	**15**	14
– Audit fees – subsidiaries	**7**	7
– Non audit services – parent company	**4**	3
Exceptional items – redundancy costs, including legal costs	**–**	88
– office closure costs	**–**	17
Net foreign exchange (gains)/losses recognised in the income statement	**(76)**	–

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

	2008 £'000	2007 £'000
Baker Tilly UK Audit LLP		
Fees in respect of the parent company's annual accounts and consolidation	**15**	14
Fees in respect of subsidiary's annual accounts	**7**	7
Fees in respect of interim report – parent company	**4**	3
	26	24

5. Finance income

	2008 £'000	2007 £'000
Interest on short term deposits	**2**	5

6. Income tax

(a) Current year tax credit

	2008 £'000	2007 £'000
Overseas taxation	**(26)**	(31)
Research and development tax credit	**2**	(25)
Deferred tax credit	**(31)**	(100)
	(55)	(156)

(b) Tax reconciliation

The tax assessed for the year differs from the small companies' rate in the UK (20%). The differences are explained below:

	2008 £'000	2007 £'000
Profit/(loss) on ordinary activities before tax	**333**	(62)
Tax at 20% (2007: 19%)	**67**	(12)
Effects of:		
Expenses not deductible for tax purposes	**7**	3
Temporary differences	**4**	31
Tax losses	**(78)**	(22)
Deferred taxation credit	**(31)**	(100)
Research and development tax credit (including overseas)	**(24)**	(56)
Tax credit for the year	**(55)**	(156)

There are tax losses of approximately £5.0 million (2007: £5.0 million) available for carrying forward against future profits of Group companies.

7. Earnings per share

Earnings per share is based on the profit for the financial year of £388,000 (2007: £94,000), and the weighted average number of ordinary shares in issue during the year of 107,228,470 (2007: 102,103,470). 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 114,417,855 (2007: 109,651,090).

8. Goodwill

Goodwill

	£'000
Cost	
At 1 January 2007	1,606
Addition	50
Exchange rate translation difference for assets held in foreign currency	15
At 1 January 2008	1,671
Exchange rate translation difference for assets held in foreign currency	12
At 31 December 2008	1,683
Accumulated impairment	
At 1 January 2007	–
Impairment loss	–
At 1 January 2008	–
Impairment loss	–
At 31 December 2008	–
Closing carrying value	
At 31 December 2008	1,683
At 31 December 2007	1,671
At 31 December 2006	1,656

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 the acquired businesses continue to generate profits and based on forecasts prepared, the directors expect this to be the case in the foreseeable future.

The goodwill is allocated to the following cash-generating units (CGU's): SAP (£50,000) and Omnimark 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. Growth rates of 2 per cent have been assumed, with a discount rate of 10 per cent. In accordance with IAS 36, the growth rates do not exceed the long-term average growth rate for the industry.

9. Other intangible assets

	Contracts and Tools £'000	Development Costs £'000	Total £'000
Cost			
At 1 January 2007	148	–	148
Additions	–	106	106
At 1 January 2008	148	106	254
Additions	–	93	93
At 31 December 2008	**148**	**199**	**347**
Accumulated amortisation			
At 1 January 2007	–	–	–
Amortisation charge for the year	30	–	–
At 1 January 2008	30	–	30
Amortisation charge for the year	30	–	30
At 31 December 2008	**60**	**–**	**60**
Closing carrying value			
At 31 December 2008	**88**	**199**	**287**
At 31 December 2007	**118**	**106**	**224**
At 31 December 2006	**148**	**–**	**148**

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.

Development costs relate to the 'Migrate' conversion portal. This product was still in development during 2008, with sales commencing in 2009. Costs will be amortised over the product's expected useful life, commencing in 2009.

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 2007	68	473	48	589
Additions	4	15	7	26
Disposals	(53)	(284)	–	(337)
At 1 January 2008	19	204	55	278
Additions	3	15	6	24
Disposals	(3)	(18)	–	(21)
At 31 December 2008	**19**	**201**	**61**	**281**
Depreciation				
At 1 January 2007	68	439	45	552
Charge for the year	2	20	9	31
Disposals	(53)	(284)	–	(337)
At 1 January 2008	17	175	54	246
Charge for the year	3	16	1	20
Disposals	(3)	(10)	–	(13)
At 31 December 2008	**17**	**181**	**55**	**253**
Net book value				
At 31 December 2008	**2**	**20**	**6**	**28**
At 31 December 2007	**2**	**29**	**1**	**32**
At 31 December 2006	**–**	**34**	**3**	**37**

The depreciation charge is included within administrative expenses.

11. Deferred tax

Deferred tax assets comprise:

	2008 £'000	2007 £'000
At 1 January 2008	**100**	–
Unused tax losses	**31**	100
At 31 December 2008	**131**	100

At the balance sheet date, the Group has unused tax losses of £5.0m (2007: £5.0m) available for offset against future profits. A deferred tax asset of £0.1m (2007: £0.1m) has been recognised in respect of such losses. No deferred tax asset has been recognised in respect of the remaining losses due to the unpredictability of future profit streams. There are tax losses which expire in 2009 of £nil (2008: £nil).

12. Trade and other receivables

	2008 £'000	2007 £'000
Trade receivables	854	652
Other receivables	79	44
Prepayments	25	29
	958	725

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 £873,000 (2007: £660,000). A bad debt reserve of £19,000 (2007: £8,000) is provided against impaired debts. The value of debts which were past due but not impaired at year end was £301,000.

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:

	2008 £'000	2007 £'000
Cash on hand and balances with banks	**543**	233
Short term deposits	**3**	3
	546	236

The carrying amount of these assets approximates their fair value.

14. Trade and other payables

	2008 £'000	2007 £'000
Trade payables	**184**	105
Accrued expenditure	**250**	129
Deferred income	**351**	466
Other taxation and social security	**75**	65
	860	765

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 2008 was 42 days (2007: 38 days).

Trade payables denominated in a foreign currency at year end were £124,000 (2007: £36,000).

15. Long term liabilities – Other payables

	2008 £'000	2007 £'000
Deferred income	**33**	51

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

16. Share capital

	2008 £'000	2007 £'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		
109,728,470/104,728,470 Ordinary shares of 1p each	**1,097**	1,047
452,056,230 Deferred shares of 1p each	**4,521**	4,521
	5,618	5,568

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 5,000,000 Ordinary Shares for cash at 1.8p per share.

17. Share based payments

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

Date exercisable	As at 1 January 2008	Granted	Cancelled	**As at 31 December 2008**	Exercise price
Unapproved Scheme:					
– from 14 April 2004					
to 14 April 2014	945,770	–	(945,770)	**–**	2.5p*
– from 14 April 2005					
to 14 April 2015	40,000	–	(40,000)	**–**	3p*
– from 17 March 2005					
to 17 March 2015	2,030,000	–	(2,030,000)	**–**	3p**
– from 16 October 2006					
to 16 October 2016	75,000	–	(75,000)	**–**	2.125p*
– from 25 April 2007					
to 25 April 2017	640,000	–	(640,000)	**–**	2.125p*
– from 30 April 2008					
to 30 April 2018	–	3,768,000	–	**3,768,000**	1.5p
EMI Scheme					
– 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	–	(180,000)	**200,000**	2.125p*
– from 25 April 2007					
to 25 April 2017	100,000	–	(100,000)	**–**	2p*
– 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
		6,810,770	7,368,000	**(6,610,770)**	7,568,000

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

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

No shares options were exercised during the year.

An expense of £22,000 was recognised from share based transactions in the year (2007: £nil).

Details of share options held by Directors can be found in the Remuneration Report on page 9.

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 forfeited if the employee leaves the Group before the options vest.

	2008		2007	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding at 1 January	**6,810,770**	**2.5p**	7,060,770	2.5p
Granted during the year	**7,368,000**	**1.54p**	1,120,000	2.125p
Forfeited during the year	**(5,199,800)**	**2.5p**	–	–
Exercised during the year	**–**	**–**	–	–
Expired during the year	**(1,410,970)**	**2.5p**	(1,370,000)	3p
Outstanding at 31 December	**7,568,000**	**1.55p**	6,810,770	2.5p
Exercisable at 31 December	**–**	**–**	–	–

No share options were exercised during the year. The options outstanding at 31 December 2008 had an exercise price between 1.5p and 2.125p, and a weighted average remaining contractual life of 9 years.

The inputs into the Black Scholes model are as follows:

	2008	2007
Weighted average share price	**1.55p**	3p
Weighted average exercise price	**10p**	10p
Expected volatility	**60%**	60%
Expected life	**10 years**	10 years
Risk free rate	**5%**	6%
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 £22,000 (2007: £nil) relating to equity-settled share-based payment transactions.

18. Statement of changes in equity

Attributable to the equity shareholders of the parent company

	Called up share capital £'000	Shares to be issued £'000	Share premium account £'000	Merger reserve £'000	Retained Earnings £'000	Total £'000
At 1 January 2007	5,523	45	5,485	658	(9,603)	2,108
Exchange adjustments	–	–	–	–	26	26
Proceeds of shares issued	45	(45)	–	–	–	–
Net gains/(losses) recognised directly in equity	45	(45)	–	–	26	26
Profit for the financial year	–	–	–	–	94	94
At 1 January 2008	5,568	–	5,485	658	(9,483)	2,228
Exchange adjustments	–	–	–	–	64	64
Share based transactions	–	–	–	–	22	22
Proceeds of shares issued	50	–	40	–	–	90
Costs of share issue	–	–	(1)	–	–	(1)
Net gains/(losses) recognised directly in equity	50	–	39	–	86	175
Profit for the financial year	–	–	–	–	388	388
At 31 December 2008	**5,618**	**–**	**5,524**	**658**	**(9,009)**	**2,791**

19. 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 2008 is £48,000 (2007: £40,000).

20. Contingent liabilities

No contingent liabilities have been provided in these accounts.

21. Commitments under operating leases

At 31 December 2008, the minimum lease payments under non-cancellable operating lease rentals are in aggregate as follows:

	2008 Land and buildings £'000	**2008 Other £'000**	2007 Land and buildings £'000	2007 Other £'000
Leases expiring:				
– within 1 year	**35**	**–**	35	–
– within 1-5 years	**83**	**7**	169	14
– after 5 years	**–**	**–**	–	–
	118	**7**	204	14

22. 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 £0.1m (2007: £0.2m) invested at an approximate rate of 1 per cent 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 2008 or 2007.

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities as at 31 December 2008 is given in note 16. 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 2008 or 31 December 2007.

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.

22. Financial risk management *continued*

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 44 per cent of sales are denominated in US dollars and 13 per cent of sales are in euros. Approximately 38 per cent of costs are in Canadian dollars and 8 per cent of costs are in euros. As a result of the partial natural hedge between the different currencies, the Group is reasonably protected against currency fluctuations.

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.

23. 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.

24. 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 paid to Richard Alsept Limited, a company owned by Richard Alsept (former Company Secretary and Chief Financial Officer) in respect of accountancy services was £15,416 (2007: £29,414). The amount owed to Richard Alsept Limited at 31 December 2008 was £500 (2007: £2,205).

Amount paid to Chris Moore Consulting Limited, a company owned by Christine Moore (current Company Secretary and Chief Financial Officer) in respect of management services was £6,110 (2007: £nil). The amount owed to Chris Moore Consulting Limited at 31 December 2008 was £6,985 (2007: £nil).

24. Related Party Transactions *continued*

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, £140,000 (2007: £50,000).

Management fees charged by Stilo Technology to Stilo International plc, £175,000 (2007: £167,000).

At 31 December 2008, the following balances were owed by Group companies:

Owed by Stilo Technology Limited to Stilo International plc, £4,171,000 (2007: £4,057,000).

Owed by Stilo Corporation to Stilo International plc, £90,000 (2007: £88,000).

Owed by Stilo Technology Limited to Stilo Corp, £24,000 (2007: £nil).

25. Bank guarantees

There were no bank guarantees given by the Company at 31 December 2008.

26. Subsidiary companies

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.

PARENT COMPANY ACCOUNTS
BALANCE SHEET

as at 31 December 2008

	Notes	2008 £'000	2007 £'000
Fixed assets			
Intangible assets		**–**	–
Tangible assets		**–**	–
Investments	*2*	**1,650**	1,596
		1,650	1,596
Current assets			
Debtors		**–**	–
Cash at bank and in hand		**–**	–
		–	–
Creditors: amounts falling due within one year		**–**	–
Net current assets		**–**	–
Net assets		**1,650**	1,596
Capital and reserves			
Called up share capital	*3*	**5,618**	5,568
Shares to be issued	*3*	**–**	–
Share premium account	*3*	**5,524**	5,485
Profit and loss account	*3*	**(9,492)**	(9,457)
Equity shareholders' funds		**1,650**	1,596

These accounts were approved by the Board of Directors and authorised for issue on 19 March 2009 and signed on its behalf by:

Les Burnham
Chief Executive Officer

PARENT COMPANY ACCOUNTS
CASH FLOW STATEMENT

as at 31 December 2008

	2008 £'000	2008 £'000	2007 £'000	2007 £'000
Net cash outflow from operating activities		**(35)**		(117)
Returns on investments and servicing of finance				
Interest received	**–**		4	
Net cash inflow from returns on investments and servicing of finance		**–**		4
Acquisitions and disposals				
Loans to subsidiary companies	**(54)**		(140)	
Net cash outflow from acquisitions and disposals		**(54)**		(140)
Net cash outflow before management of liquid resources and financing		**(89)**		(253)
Management of liquid resources				
Decrease in short term deposits		**–**		163
Financing				
Issue of ordinary share capital	**90**		90	
Share issue costs	**(1)**		–	
		89		90
Decrease in cash		**–**		–

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.

A separate income statement for the parent company has not been presented as permitted by Section 230(4) of the Companies Act 1985.

Turnover and revenue recognition

Turnover represents the value of goods and services supplied and is stated net of value added tax.

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.

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. Investment in subsidiaries

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 31 December 2008	**823**	**827**	**1,650**

The net book value of investments is stated after impairment write-downs of £2,759,000 (2007: £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.

3. Capital and reserves

	Called up share capital £'000	Shares to be issued £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2007	5,523	45	5,485	(9,238)	1,815
Proceeds of shares issued	45	(45)	–	–	–
Loss for the financial year	–	–	–	(219)	(219)
At 1 January 2008	**5,568**	**–**	**5,485**	**(9,457)**	**1,596**
Proceeds of shares issued	50	–	40	–	90
Costs of share issue	–	–	(1)	–	(1)
Loss for the financial year	–	–	–	(35)	(35)
At 31 December 2008	**5,618**	**–**	**5,524**	**(9,492)**	**1,650**

4. Share based payments

Details of share based payments are given in note 17 to the consolidated financial statements.

5. Related Parties

The company has taken the exemption given by FRS 8 and not disclosed transactions with related parties.

6. Loss attributable to parent company

The loss for the financial year dealt with in the accounts of Stilo International plc was £35,000 (2007: £219,000). As provided for by section 230 of the Companies Act 1985, no profit and loss account is presented in respect of the parent company.

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 19 May 2009 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 2008, 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. A short biography is provided on page 10 of the Annual Report and Accounts.

Auditors

Resolution 3: To reappoint Baker Tilly UK Audit LLP, 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, and pursuant to section 80 of the Companies Act 1985 (as amended) (the "1985 Act") the Directors be and they are hereby authorised generally and unconditionally to allot relevant securities (as defined in section 80(2) of the 1985 Act) up to an aggregate nominal amount of £362,103 (representing approximately 33% of the issued equity share capital of the Company as at the date of the Notice of this meeting) within the terms of the restrictions and provisions following, namely:

(a) provided that this authority (unless previously revoked, varied or renewed) shall expire on the date five years from the date on which this resolution is passed; and

(b) 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 authority; and

(c) words and expressions defined in or for the purpose of Part IV of the Companies Act 1985 shall bear the same meaning therein.

4.2 That, in addition to the authority granted in paragraph 4.1 above, and pursuant to section 80 of the 1985 Act the Directors be and they are hereby authorised generally and unconditionally to allot equity securities (within the meaning of 94(2) of the 1985 Act) in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirement of any regulatory body or stock exchange) up to an aggregate nominal amount of £362,103 (representing approximately 33% of the issued equity share capital of the Company as at the date of the Notice of this meeting) 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 Company's next annual general meeting; and

(b) 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 authority; and

(c) 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 1985 Act (but without prejudice to the exercise of any such authority prior to the date hereof) the Directors be and they are hereby empowered pursuant to Section 95 of the 1985 Act to allot equity securities (within the meaning of Section 94(2) of the 1985 Act) for cash, pursuant to the authority conferred upon the Directors in resolution 4 above, as if Section 89(1) of the 1985 Act did not apply to any such allotment, provided that the power hereby granted:

(a) shall be limited to the allotment of equity securities:

   (i) in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, subject to such exclusions or other arrangements as the Directors may consider necessary or expedient in relation to fractional entitlements, statutory restrictions or legal or practical problems under or resulting from the application of the laws of any territory or the requirements of any recognised regulatory body or stock exchange in any territory; and

   (ii) (other than pursuant to sub-paragraph (i) above) of up to an aggregate nominal amount of £109,728 (representing approximately 10% of the issued ordinary 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 30 June 2010.

By order of the Board

Christine Moore
Company Secretary

19 March 2009

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 6.00 p.m. on 17 May 2009. Changes to entries on the relevant register of securities after 6.00 p.m. on 17 May 2009 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, vote and speak at the meeting may appoint one or more proxies to attend, vote and speak instead of him. A proxy need not be a member of the Company. A member may appoint more than one proxy in relation to the meeting, provided each proxy is appointed to exercise the rights attended to a different share or shares held by the member. On a show of hands, a member and any proxy or proxies duly appointed by such member shall (notwithstanding the provisions of Article 13.1 of the Company's articles of association) have one vote each, pursuant to sections 284, 285 and 324 of the Companies Act 2006. On a poll every member present in person or by proxy shall have one vote for every share held by him.

3. A form of proxy is enclosed. To be valid, 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 form 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 (weekends 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.

5. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of appointment letter if the chairman is being appointed as described in (i) above.

6. 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.

7. 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 the specifications of Euroclear UK & Ireland and must contain the information required for such instructions, as described in the CREST Manual. 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 Applications 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.

8. 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 actions 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.

9. 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.

Explanatory notes to the resolutions

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 2008.

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 David Ashman 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

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, for a period of five years, the Directors' authorisation to allot the Company's unissued shares up to a nominal amount of £362,103 (which represents 36,210,300 ordinary shares and, as at 19 March 2009, just under 33 per cent of the issued ordinary share capital of the Company), and, for a period of one year, the Directors' authorisation to allot the Company's unissued shares up to an additional nominal amount of £362,103 (which represents 36,210,300 ordinary shares and, as at 19 March 2009, a further 33 per cent of the issued ordinary share capital of the Company) where the allotment is in connection with a rights issue. The Directors have no present intention of allotting shares pursuant to this authority.

Resolution 5: 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 30 June 2010, whichever is the earlier, provided that any equity securities allotted for cash pursuant to such a power be limited to a nominal amount of £109,728 (which represents 10,972,800 ordinary shares and, as at 19 March 2009, just under 10 per cent of the issued ordinary share capital of the Company) .

FORM OF PROXY

FOR USE AT THE ANNUAL GENERAL MEETING OF STILO INTERNATIONAL plc ON 19 MAY 2009

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 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 Tilley, 2 Bloomsbury Street, London WC1B 3ST on Tuesday, 19 May 2009 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 2008.			
2. To re-appoint David Ashman 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.			

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 ____ 2009

Notes:

1. A member entitled to attend, vote and speak at the Annual General Meeting is entitled to appoint a proxy to attend, vote and speak instead of him. A proxy need not be a member of the Company. A member may appoint more than one proxy in relation to a meeting provided each proxy is appointed to exercise the rights attached to a different share or shares held by the member. To appoint more than one proxy, please contact the Company's registrar, whose details are set out on page 12 of the Annual Report and Accounts. On a show of hands, a member and any proxy or proxies duly appointed by such member shall (notwithstanding the provisions of Article 13.1 of the Company's articles of association) have one vote each, pursuant to section 284, 285 and 324 of the Companies Act 2006. On a poll every member present in person or by proxy shall have one vote for every share held by him.
2. 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.
3. Please indicate 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.
4. Any alteration to this form should be initialled.
5. 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.
6. To be valid this proxy form, and any power of attorney under which it is executed (or a duly certified copy of any such power of authority), must be deposited at the office of Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not later than 48 hours before the time appointed for holding the meeting.
7. 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.
8. 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.
9. Deposit of a proxy form does not preclude you from attending and voting in person at the meeting or at any adjournment thereof.
10. 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.
11. 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 the specifications of Euroclear UK & Ireland and must contain the information required for such instructions, as described in the CREST Manual. 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 Applications 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.
12. 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 actions 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.
13. 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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