ANNUAL REPORT

Financial year ending 31 December 2017

stilo
international plc

Stilo develops software tools and cloud services that help organisations create and process structured content in XML format, so that it can be more easily stored, managed, re-used, translated and published to multiple print and digital channels.

stilo international plc

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CHAIRMAN'S STATEMENT

I am pleased to report that in 2017 we increased sales by 8% to £1,894,000 and continued to invest in new product development and marketing initiatives while maintaining our levels of profitability.

Sales of OmniMark software licences to Japan were particularly strong and we saw a healthy increase in Migrate revenues as the DITA XML market grew encouragingly from previous levels. Recurring software maintenance revenues also increased during the period.

The development of AuthorBridge has taken longer than we expected, as v2 development continues into 2018. However, we recognise that this is a multi-year endeavour which will serve to underpin the future growth of the Company, and are encouraged by the feedback so far received from early customers.

Our reported profits are stated after the capitalisation of AuthorBridge development costs, as mandated by IFRS reporting standards and we anticipate amortising the accumulated capitalised costs (which now amount to £688,000) over a ten year period starting in the current financial year, following the general release of AuthorBridge v2.

With increasing cash reserves, I am pleased to propose the payment of a final dividend of 0.05 pence per share, providing a total dividend for the year of 0.10 pence per share.

David Ashman
Chairman

14 March 2018

Migrate revenues increased by 7% in 2017, as the DITA XML market grew encouraging from previous levels.

MIGRATE

FINANCIAL HIGHLIGHTS 2017

- **8% increase in sales revenues to £1,894,000** (2016: £1,761,000)
- **Profit before tax of £309,000** (2016: £318,000)
- **10% increase in operating costs, net of capitalised development costs, to £1,578,000** (2016: £1,437,000)
- **Increased investment in total product development to £656,000** (2016: £538,000) **of which £213,000 capitalised** (2016: £204,000)
- **Improved cash position of £1,621,000 as at 31 December 2017** (2016: £1,466,000)
- **Final dividend proposed of 0.05 pence per Ordinary Share, providing an 11% increase in total dividend to 0.10 pence for the year** (2016: total 0.09 pence)

BUSINESS HIGHLIGHTS 2017

- Significant **OmniMark** software licence orders received from the **Japan Patent Office**
- 7% increase in **Migrate** revenues, with customers for the period including **GE, Brocade, Qualcomm, Tyco, ITT, Microchip, Tibco, Cisco, Deltek, RSSB (Rail Safety and Standards Board), Motorola, Tetra Pak, Viewpoint, AMAT Varian** and **Atmel**
- **6% increase** in recurring **software maintenance revenues** to £929,000 (2016: £871,000)
- Release of trial version of **AuthorBridge v2**
- Launch of **new website** (www.stilo.com)

BUSINESS OVERVIEW

Stilo develops software tools and cloud services that help organisations create and process structured content in XML format, so that it can be more easily stored, managed, re-used, translated and published to multiple print and digital channels.

Over recent years, many organisations have adopted industry specific XML standards e.g. Publishing (DocBook), Aerospace & Defence (S1000D), Finance (XBRL), Life Sciences (SPL), Software and High Tech (DITA). Stilo made the decision some years ago to focus new product development and marketing efforts on the emerging DITA standard. This standard originated within IBM to support the publishing of its technical documentation and has been increasingly adopted by other software and high tech companies. DITA is now beginning to make inroads into additional market sectors including Manufacturing, Life Sciences and Publishing.

In order to diversify beyond the DITA market, we have recently undertaken research into the XML JATS (Journal Article Tag Suite) market for scientific and scholarly publishers. Initial indications are that this could represent a promising new business opportunity for Stilo, and we will seek to address this through the incremental development of AuthorBridge and Migrate.

We continue to build upon our strong reputation for excellent products and supporting technical expertise, resulting from many years of experience in the structured content marketplace. With offices in the UK and Canada, we support clients throughout North America, Europe and Japan.

PRODUCTS AND CUSTOMERS

OmniMark

Stilo's core technology is OmniMark, a long-established development platform used to build high-performance content processing applications integral to enterprise publishing solutions.

Users include The Boeing Company, Pratt and Whitney, Airbus Defence & Space, Clarivate Analytics and Wolters Kluwer.

Sales for the year included orders from the European Parliament and the Japan Patent Office.

Migrate

Migrate is the world's first cloud XML content conversion service and utilises OmniMark technology. Through advanced levels of automation, it enables organisations to improve turnaround times, reduce operating costs and take direct control of their work schedules, providing an attractive alternative to traditional outsourced conversion services.

Migrate sales for the year included orders from GE, Brocade, Qualcomm, Tyco, ITT, Microchip, Tibco, Cisco, Deltek, RSSB (Rail Safety and Standards Board), Motorola, Tetra Pak, Viewpoint, AMAT Varian and Atmel.

Using Migrate, we have helped our customers convert over one million pages of content to the DITA format.

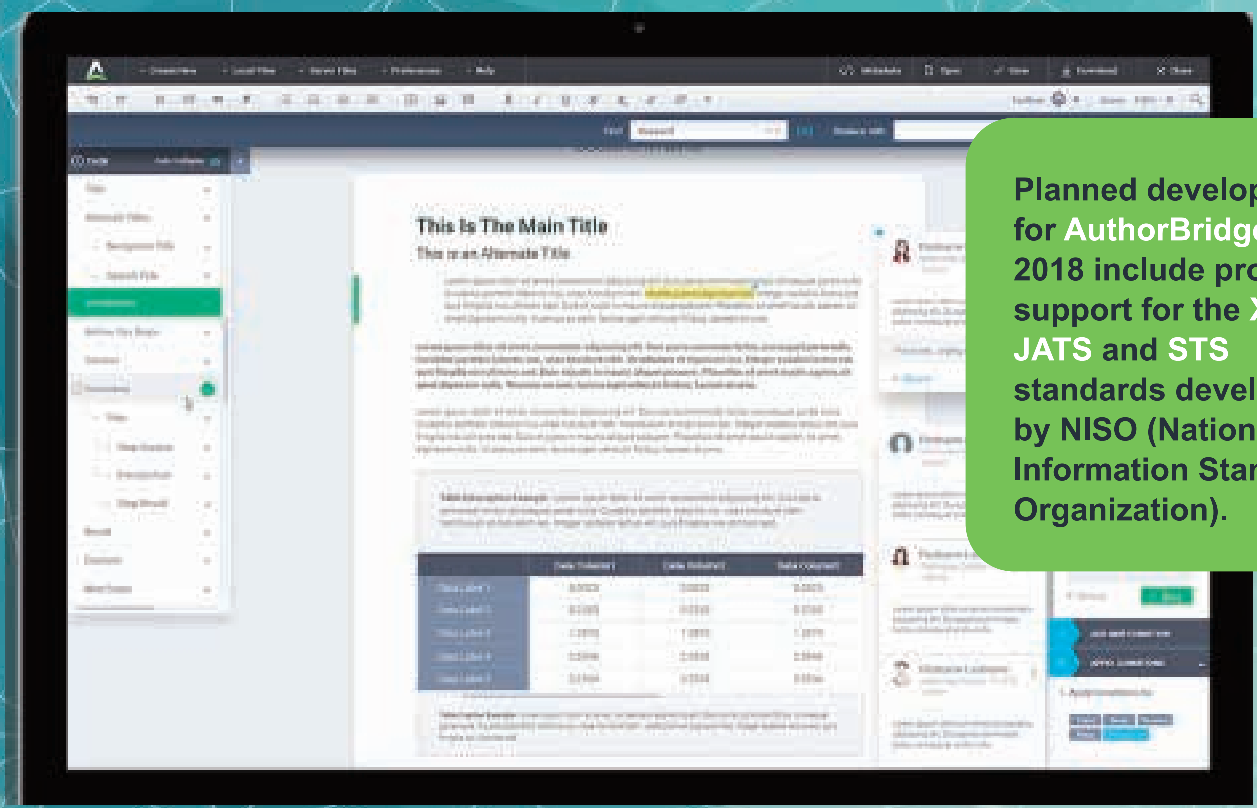
AuthorBridge

AuthorBridge is a web-based XML authoring tool, designed for occasional content contributors who have no knowledge of XML or its complexities. It is currently targeted at large enterprises which are looking to extend the use of DITA across different business units and potentially support thousands of users.

Development of AuthorBridge is progressing well, albeit with some slippage against original schedules. Its initial deployment in production at IBM, following extensive co-operation and testing by the central Information Developer Tools team, serves as a good foundation upon which we can build future sales.

The ongoing development of AuthorBridge continues into 2018, as we add functionality that is necessary to advance sales more generally in the DITA market.

Planned developments in 2018 also include support for the XML JATS (Journal Article Tag Suite) standard for scientific and scholarly publishers, and for the XML STS (Standards Tag Suite) standards developed by NISO (National Information Standards Organization).

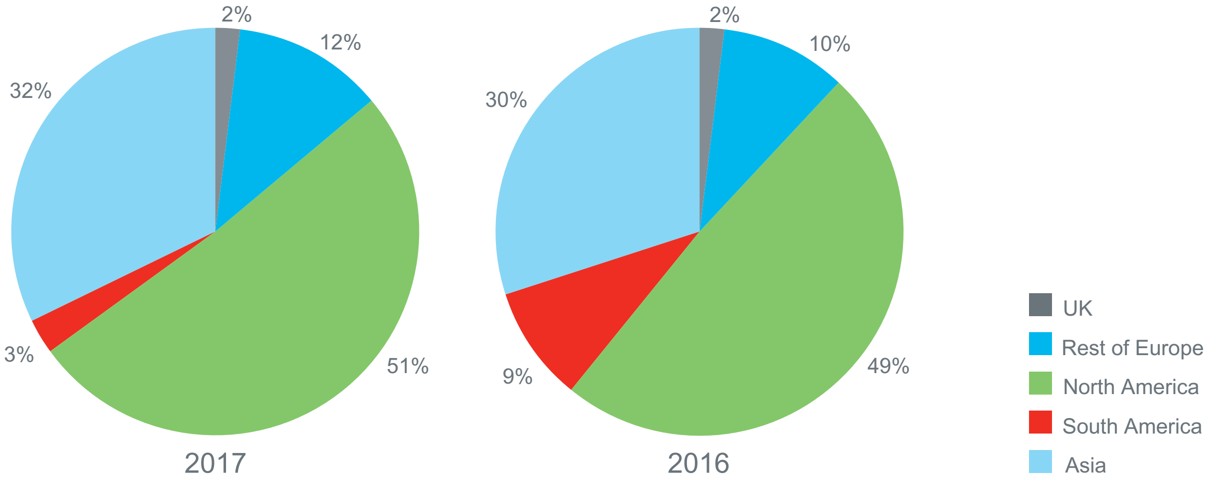


Planned developments for AuthorBridge in 2018 include providing support for the XML JATS and STS standards developed by NISO (National Information Standards Organization).

AUTHORBRIDGE

SALES ANALYSIS BY GEOGRAPHIC REGION

Our customers typically comprise large organisations, and are spread globally. Geographic sales revenues were derived as follows:



North America continues to represent a significant proportion of sales revenues as adoption of the DITA XML standard has been primarily led by corporations with their headquarters based in the USA. It is anticipated that adoption of the DITA XML standard will spread internationally over the coming years.

TECHNICAL EXPERTISE

Our technical team includes leading experts in the development of XML content processing technologies and, along with our support services, are very highly regarded by customers.

OmniMark is used in the development of Migrate, and both Migrate and OmniMark technologies are used in AuthorBridge, which results in very efficient integrated development and support activities.

OPERATIONS

Stilo operates from offices located in Swindon, UK and Ottawa, Canada. The technical team is based in our Ottawa office.

As at 31 December 2017, there were 18 permanent employees in the Group, complemented by the use of contractors. In 2018 we will be making additional investments in the recruitment of development personnel, but it is not anticipated that we will be growing headcount significantly, as we look to contain our costs and scale the business through technology sales.

FINANCIAL RESULTS AND KEY PERFORMANCE INDICATORS

The results for the year ended 31 December 2017 have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the European Union.

In 2017, the results for Stilo show a decrease in EBITDA to £315,000 (2016: £327,000). Pre-tax profits were £309,000 (2016: £318,000).

Total sales revenues for the year increased by 8% to £1,894,000 (2016: £1,761,000). The Group continued to benefit from recurring revenue from software maintenance contracts of £929,000 (2016: £871,000) which represents 49% (2016: 49%) of annual sales revenue.

The Group continues to maintain careful control over operating costs. Investment in additional development staff has meant that operating costs increased in the year. Operating expenses, excluding capitalised development costs, were £1,591,000 (2016: £1,449,000).

Investment in research and development continued in 2017, with total expenditure for the year of £656,000 (2016: £538,000). As a result of this investment, Stilo continues to benefit from research and development tax credits. Of this expenditure, £213,000 (2016: £204,000) relating to the development of AuthorBridge has been capitalised, and the total accumulated capitalised costs will be depreciated over a 10 year period, commencing in 2018.

There was a cash balance of £1,621,000 as at 31 December 2017 (31 December 2016: £1,466,000), and Stilo remains entirely un-geared. This Statement of Financial Position stability provides a sound financial base for the Group and will support continued investment in product development, sales and marketing. Further investment in staff recruitment is expected in 2018, however, overall costs will continue to be carefully managed in order to maintain cash reserves at a satisfactory level.

Total trade receivables were £126,000 (2016: £348,000), equating to 24 days (2016: 72 days). Overdue amounts are closely monitored.

The directors monitor the performance of the Group based on the above key performance indicators.

DIVIDENDS

The Board recommends the payment of a final dividend for the year of 0.05 pence per Ordinary Share which, if approved by the shareholders at the AGM on 23 May 2018, will be paid on 30 May 2018 to shareholders on the register on 20 April 2018. The shares will be marked ex-dividend on 19 April 2018. If approved, payment of the final dividend will bring the total dividends paid to shareholders for the year to 0.10 pence per Ordinary Share.

The Board's policy is to maintain payment of a steady and progressive dividend, well covered and paid subject to maintaining sufficient funds within the business with regard to prudent forecasts of future capital requirements, without the need for debt funding.

OUTLOOK

The directors are aware that material orders from two key customers for OmniMark and Migrate will not be repeated in 2018 and the revenue shortfall will need to be offset by new business sales to maintain the current level of revenues. To support this, we are undertaking additional investments in sales and marketing with the objective of further broadening the customer base and accelerating the growth of AuthorBridge.

We are encouraged by the sales pipeline for new business prospects, but at the current time it is far too early to know what the outcome will be for 2018. However, Stilo has the balance sheet, and product portfolio, not to shy away from incurring costs today in order to sharpen the Group's long term growth curve and deliver sustainable value growth to investors.

PRINCIPAL RISKS AND UNCERTAINTIES

Financial risk management and exposure are considered further in note 21.

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

Market Conditions – close working relations are maintained with both the Group's partners and customers in order to monitor market and technology changes. The directors continually monitor other markets and products that are complementary to the Group'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 risks are reviewed for customers based upon payment history and references. Credit risks 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 potential adverse effect of default.

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

Signed on behalf of the Board

Liam O'Donoghue, Director
14 March 2018

The directors present their report together with the audited accounts of the Group and the Company for the year ended 31 December 2017.

RESULTS AND DIVIDENDS

The Group profit for the year after taxation was £313,000 (2016: £331,000). During the year an interim dividend of £57,000 (0.05 pence per Ordinary Share) was declared and paid (2016: interim dividend £46,000). A final dividend for the year of £57,000 (0.05 pence per Ordinary Share) has been proposed by the directors for approval at the AGM (2016: £57,000). The directors consider that the going concern basis is still appropriate, supported by the continued profitability of the Group and the increasing cash balances, and the financial statements are prepared on the going concern basis. Further information is given in note 1 on page 25.

FUTURE DEVELOPMENTS

The business outlook is considered in the Chairman's Statement on page 2 and Strategic Report on pages 4 to 8.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year and their beneficial interests in the share capital of the Company are shown in the Remuneration Report on page 11, and under Directors and Officers on page 12.

SUBSTANTIAL SHAREHOLDINGS

At 12 March 2018 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
Brewin Nominees Limited	25,574,594	22.45%
Brewin Nominees Limited	17,670,111	15.51%
Alliance Trust Savings Nominees Ltd	9,609,222	8.43%
HSDL Nominees Limited	7,257,259	6.37%
Brewin Nominees Limited	4,952,645	4.35%
HSBC Global Custody Nominee (UK) Limited	4,100,000	3.60%
Mr S J Buswell	4,084,416	3.59%

DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare Group and Company financial statements for each financial year. The directors are required by the AIM rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and have elected under company law to prepare the Company financial statements in accordance with IFRS as adopted by the EU.

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

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 accounting estimates that are reasonable and prudent;

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

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

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

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

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

RESEARCH AND DEVELOPMENT

Research and development expenditure for the year, excluding costs capitalised which amounted to £213,000 (2016: £204,000), was £443,000 (2016: £334,000). Further information relating to research and development is contained in the Chairman's Statement on page 2 and Strategic Report on pages 4 to 8.

FINANCIAL INSTRUMENTS

The Group's exposure to risks on financial instruments is described in note 21.

QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The Group has made qualifying third party indemnity provisions for the benefit of its directors during the year. These provisions remain in force at the reporting date.

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 quarterly staff meetings.

ENVIRONMENT

The activities of the Group do not pose environmental hazards. The Group monitors energy consumption and 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

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

Approved by the directors and signed on behalf of the Board.

Liam O'Donoghue, Director
14 March 2018

REMUNERATION COMMITTEE MEMBERSHIP

Remuneration policy is set by the non-executive directors.

POLICY STATEMENT

The Chairman 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 Chairman'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 is set out in note 3.

DIRECTORS' INTERESTS

The interests of the directors at 31 December 2017 in the shares of the Company were as follows:

	31 December 2017 Number of Ordinary Shares	1 January 2017 Number of Ordinary Shares
Executive		
L Burnham	5,000,000	5,000,000
Non-executive		
D Ashman	13,712,000	20,902,000
L O'Donoghue	–	–

SHARE OPTION SCHEME

At 31 December 2017 the following share options were held by directors:

	At 1 January 2017 and 31 December 2017	Exercise price	Date from which exercisable	Expiry Date
L Burnham	6,600,000	3.75p	15 September 2017	14 September 2025

The market price of the Company's shares at the end of the financial year was 5.63p and the range of the market prices during the year ended 31 December 2017 was between 4.37p and 6.88p.

NON-EXECUTIVE DIRECTORS

The remuneration of the non-executive directors is considered by the executive director. The non-executive directors do not have a contract of service, but the current term of appointment is for an initial period of twelve months and continues thereafter on three months' notice.

Liam O'Donoghue, Director
14 March 2018

DIRECTORS AND OFFICERS

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

DAVID ASHMAN – NON-EXECUTIVE DIRECTOR AND CHAIRMAN

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.

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 the Cranfield School of Management.

LIAM O'DONOGHUE – NON-EXECUTIVE DIRECTOR AND COMPANY SECRETARY

Liam qualified as a lawyer with leading Irish Corporate law firm William Fry and also spent a number of years in the corporate finance department of Seymour Pierce in London where he advised on a wide range of corporate transactions. Liam is a founder member and director of ONE Advisory Group, which provides corporate advisory and administration services to listed companies.

ADVISERS AND OTHER COMPANY INFORMATION

REGISTERED OFFICE
Regus House
Windmill Hill Business Park
Whitehill Way, Swindon
SN5 6QR

REGISTERED NUMBER
03893693

PRINCIPAL BANKERS
National Westminster Bank plc
207 Richmond Road
Cardiff
CF2 3XT

INDEPENDENT AUDITOR
RSM UK Audit LLP
5th Floor, Central Square
29 Wellington Street
Leeds
LS1 4DL

NOMINATED ADVISER
SPARK Advisory Partners Limited
5 St John's Lane
London
EC1M 9BH

BROKER
SI Capital Limited
46 Bridge Street
Godalming
GU7 1HL

REGISTRAR
Link Asset Services
The Registry
34 Beckenham Road
Beckenham, Kent
BR3 4TU

SOLICITORS
Burges Salmon
1 Glass Wharf
Bristol
BS2 0ZX

COMPLIANCE

As the Company is listed on AIM, it is not required to comply with the provisions set out in the 2014 UK Corporate Governance Code. However, the following information is provided which describes how the Company applies principles of corporate governance that the directors consider appropriate for a company of this size.

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, the CEO of the Company, and two non-executive directors who bring a breadth of experience and knowledge. The current Board members are listed, and their biographies shown on page 12.

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 encourages their participation.

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

AUDIT COMMITTEE

The Audit Committee comprises the non-executive directors. The non-executive directors meet with the auditors on a formal basis once a year and whenever it is considered appropriate. The non-executive directors are 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 non-executive directors monitor the level of non-audit work undertaken by the auditor prior to the annual audit.

INTERNAL CONTROLS

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

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

GOING CONCERN

After making appropriate enquiries, the directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group accounts. Further information is given in note 1 on page 25.

OPINION

We have audited the financial statements of Stilo International plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Statement of Financial Position, the Group Statement of Changes in Equity, the Parent Company Statement of Changes in Equity, Group Statement of Cash Flows, Parent Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit; and
- directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Timing of recognition of revenue
The products sold by the Group require management to carefully consider the time at which it is appropriate to recognise revenue. This is particularly the case where the sale of software may be accompanied by a sale of maintenance (“Bundled Sales”). Bundled Sales are inherently more complex and there is therefore a significant audit risk that this complexity results in revenue being recorded in the incorrect period.

Management provided us with a schedule of revenue recognised in the period, analysed between the different products sold by the Group and also analysed between maintenance and software licence revenue. We performed audit work as follows.

For software licence revenue we tested a sample of sales to confirm that the Group had provided the relevant access details to the customer during the year. We also corroborated the invoice details to a customer order and to the standard OmniMark price list maintained by the Group.

For maintenance revenue we tested a sample of sales and confirmed the period of maintenance to the sales order. For each sale, we also recomputed the extent to which revenue should be deferred until future periods and agreed this to management’s schedule of deferred revenue.

For Bundled Sales recorded on the same invoice we agreed the software licence element, and any maintenance or support, to the OmniMark price list maintained by the Group. We also performed the work set out above in respect of the software licence or the maintenance.

Capitalisation of product development costs
The Group continues to develop the AuthorBridge product. The board have determined that the costs of this development meet the criteria for capitalisation set out in IAS 38 ‘Intangible Assets’. There is an audit risk that the amounts capitalised do not meet the criteria or are not directly attributable to the development. Furthermore, the application of IAS 38 in this situation often requires management to exercise judgement in applying the standard properly and therefore the inherent audit risk is increased.

We discussed with management the basis upon which they had determined that costs should be capitalised and compared it with the basis adopted in prior years given that the qualifying project commenced prior to 2016. Management provided us with a schedule detailing all of the costs to be capitalised which primarily comprised labour costs. The calculation of labour costs was based on time spent on the qualifying project and we were able to agree a sample of the hours identified as worked on the project to underlying timesheet records. For a sample of employees, subject to calculation, we validated their salary to either prior year work papers or new starter records and confirmed any pay rises granted in the period to pay rise notifications. For non-labour costs, we validated a sample of the amount capitalised to supporting invoices and used this to confirm that the costs were directly attributable to the project.

OUR APPLICATION OF MATERIALITY
When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £60,000 which was not changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £2,500 as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT
Our audit scope covered 100% of Group revenue, Group profit and total Group assets and liabilities. It was performed to the materiality levels set out above.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, set out on pages 9 and 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Andrew Allchin FCA (Senior Statutory Auditor)
For and on behalf of RSM UK AUDIT LLP, Statutory Auditor
Chartered Accountants
Central Square, 5th Floor
29 Wellington Street
Leeds
LS1 4DL

14 March 2018

GROUP INCOME STATEMENT
for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Continuing operations			
Revenue	2	**1,894**	1,761
Cost of sales		**(13)**	(12)
Gross profit		**1,881**	1,749
Administrative expenses		**(1,578)**	(1,437)
Operating profit	4	**303**	312
Finance income	5	**6**	6
Profit before tax		**309**	318
Income tax	6	**4**	13
Profit for the year attributable to the equity shareholders of the Parent Company		**313**	331
Earnings per share attributable to equity shareholders of the parent:			
Earnings per share – basic	7	**0.28p**	0.29p
Earnings per share – diluted	7	**0.26p**	0.28p
Dividends paid per share	26	**0.10p**	0.09p

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

	2017 £'000	2016 £'000
Profit for the year	**313**	331
Other comprehensive income		
Items that may subsequently be reclassified to profit and loss		
Foreign currency translation differences	**(32)**	200
Other comprehensive income for the year, net of tax	**(32)**	200
Total comprehensive income for the year	**281**	531

All comprehensive income is attributable to equity shareholders of the Parent Company.

GROUP AND PARENT STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

	Notes	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Non-current assets					
Goodwill	*8*	**1,660**	1,660	**–**	–
Other intangible assets	*9*	**688**	482	**–**	–
Investments	*25*	**–**	–	**1,274**	1,299
Plant and equipment	*10*	**12**	18	**–**	–
Deferred tax asset	*11*	**50**	50	**–**	–
		2,410	2,210	**1,274**	1,299
Current assets					
Trade and other receivables	*12*	**170**	390	**–**	–
Income tax asset		**54**	59	**–**	–
Cash and cash equivalents	*13*	**1,621**	1,466	**–**	–
		1,845	1,915	**–**	–
Total assets		**4,255**	4,125	**1,274**	1,299
Current liabilities					
Trade and other payables	*14*	**504**	589	**–**	–
Non-current liabilities					
Other payables	*15*	**13**	9	**–**	–
Total liabilities		**517**	598	**–**	–
Equity attributable to equity shareholders of the Parent Company					
Called up share capital	*16*	**1,139**	1,138	**1,139**	1,138
Share premium		**29**	29	**29**	29
Merger reserve		**658**	658	**–**	–
Retained earnings		**1,912**	1,702	**106**	132
Total equity		**3,738**	3,527	**1,274**	1,299
Total equity and liabilities		**4,255**	4,125	**1,274**	1,299

The profit for the financial year dealt with in the accounts of Stilo International plc was £45,000 (2016: £42,000). As provided for by section 408 of the Companies Act 2006, no income statement is presented in respect of the Parent Company.

The accounts on pages 18 to 43 were approved by the Board of Directors and authorised for issue on 14 March 2018 and signed on their behalf by:

Liam O'Donoghue
Director

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2016	1,124	13	658	1,227	3,022
Comprehensive income					
Profit for the financial year	–	–	–	331	331
Other comprehensive income	–	–	–	200	200
Total comprehensive income	–	–	–	531	531
Transactions with owners					
Share based payment transactions	–	–	–	46	46
Dividends paid	–	–	–	(102)	(102)
Shares issued	14	16	–	–	30
Total transactions with owners	14	16	–	(56)	(26)
Balance at 1 January 2017	1,138	29	658	1,702	3,527
Comprehensive income					
Profit for the financial year	–	–	–	313	313
Other comprehensive income	–	–	–	(32)	(32)
Total comprehensive income	–	–	–	281	281
Transactions with owners					
Share based payment transactions	–	–	–	43	43
Dividend paid	–	–	–	(114)	(114)
Shares issued	1	–	–	–	1
Total transactions with owners	1	–	–	(71)	(70)
Balance at 31 December 2017	**1,139**	**29**	**658**	**1,912**	**3,738**

Share premium account
Represents amounts subscribed for share capital in excess of nominal value, net of directly attributable share issue costs.

Merger reserve
The merger reserve has arisen on the legal acquisition of subsidiary companies.

Retained earnings
Retained earnings represent the accumulated retained profits and losses less payment of dividends.

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Called up share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2016	1,124	13	146	1,283
Comprehensive income				
Profit for the financial year	–	–	42	42
Total comprehensive income	–	–	42	42
Transactions with owners				
Share based payment transactions	–	–	46	46
Dividends paid	–	–	(102)	(102)
Shares issued	14	16	–	30
Total transactions with owners	14	16	(56)	(26)
Balance at 1 January 2017	1,138	29	132	1,299
Comprehensive income				
Proft for the financial year	–	–	45	45
Total comprehensive income	–	–	45	45
Transactions with owners				
Share based payment transactions	–	–	43	43
Dividend paid	–	–	(114)	(114)
Shares issued	1	–	–	1
Total transactions with owners	1	–	(71)	(70)
Balance at 31 December 2017	**1,139**	**29**	**106**	**1,274**

Share premium account

Represents amounts subscribed for share capital in excess of nominal value, net of directly attributable share issue costs.

Retained earnings

Retained earnings represent the accumulated retained profits and losses less payment of dividends.

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

	Notes	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Cash flows from operating activities					
Profit before taxation		**309**		318	
Adjustment for depreciation		**12**		15	
Adjustment for investment income		**(6)**		(6)	
Adjustment for foreign exchange differences		**8**		124	
Adjustment for share-based payments		**43**		46	
Operating cash flows before movements in working capital		**366**		497	
Decrease/(increase) in trade and other receivables		**220**		(187)	
(Decrease)/increase in trade and other payables		**(81)**		97	
Cash generated from operations			**505**		407
Tax paid			**(50)**		(45)
Tax credit received			**58**		49
Net cash generated from operating activities			**513**		411
Cash flows from investing activities					
Finance income			**6**		6
Development costs			**(213)**		(204)
Purchase of equipment			**(6)**		(11)
Net cash used in investing activities			**(213)**		(209)
Cash flows from financing activities					
Dividends paid			**(114)**		(102)
Issue of ordinary share capital			**1**		30
Net cash used in financing activities			**(113)**		(72)
Net increase in cash and cash equivalents			**187**		130
Cash and cash equivalents at beginning of year			**1,466**		1,318
Exchange (losses)/gains on cash and cash equivalents			**(32)**		18
Cash and cash equivalents at end of year	*13*		**1,621**		1,466

Cash and cash equivalent consists of cash on hand and balances with a range of financial institutions.

PARENT COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

	2017		2016	
	£'000	**£'000**	£'000	£'000
Net cash inflow from operating activities				
Profit before taxation	**45**		42	
Operating cash flows before movements in working capital	**45**		42	
Cash generated from operations		**45**		42
Net cash generated from operating activities		**45**		42
Cash flows in investing activities				
Repayment of loan from subsidiary		**68**		30
Net cash generated from investing activities		**68**		30
Cash flows from financing activities				
Dividends paid		**(114)**		(102)
Issue of ordinary share capital		**1**		30
Net cash used in financing activities		**(113)**		(72)
Increase in cash and cash equivalents		**–**		–
Cash and cash equivalents at beginning of year		**–**		–
Cash and cash equivalents at end of year		**–**		–

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

1 ACCOUNTING POLICIES

(a) Basis of preparation

Stilo International Plc is a public limited company, incorporated and domiciled in England. It is listed on AIM. The registered office of the Company is in the United Kingdom, and the main activities are set out in the Strategic Report on pages 4 to 8.

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and International Financial Reporting Committee ("IFRC") interpretations that are applicable to the consolidated financial statements for the year ending 31 December 2017, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared in sterling, which is the Group's presentation currency. Except for foreign exchange contracts held at fair value, they have been prepared using the historical cost convention.

The Parent Company accounts have also been prepared in accordance with IFRS, and using the historical cost convention.

The financial statements are prepared in sterling, which is the functional currency of the Group and the Company. Monetary amounts in these financial statements are rounded to the nearest thousand.

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.

The directors consider that the going concern basis is still appropriate. Future plans indicate that the Company will be able to meet future financing needs from future cash flows generated. In order to conclude whether the going concern basis is appropriate for the preparation of the financial statements, management have prepared forecasts for a period of 12 months from the date of signing of these financial statements, based on a prudent level of growth in trading for the current year and assuming that the historical payment profile of receivables and payables remains consistent with that experienced in recent years. They have also assumed that there are no significant changes in staffing levels, other than those additional staff included in the plans for the period. These forecasts show that the Company has an adequate level of cash reserves to meet its operating liabilities as and when they fall due from existing sources. At least a 50% reduction in revenue levels (without any adjustment in the cost base in the business) would be required before the Company would need to consider alternative sources of funding. Given that this kind of drop-off in revenues is considered by management to be highly unlikely to occur and they would be able to take compensating actions with regard to the Company's cost base, management have concluded that the current forecasts have adequate headroom to be able to conclude that the going concern basis remains appropriate.

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 9 Financial Instruments: The IASB issued IFRS 9 to include a logical model for classification and measurement, a single forward looking expected loss impairment model, and a substantially reformed approach to hedge accounting. Endorsed by the EU and effective from 1 January 2018.

IFRS 15 Revenue from contracts with customers: dealing with the recognition of revenue from contracts and customers. Endorsed by the EU and effective from 1 January 2018.

IFRS 16 Leases: Introduces a single lessee accounting model, and eliminates the previous distinction between an operating lease and a finance lease. Endorsed by the EU and effective from 1 January 2019.

The directors are assessing the impact of IFRS 15 and whether the application of IFRS 15, once effective, will have a material impact on the results of the Company. The directors are also currently assessing the impact of IFRS 16 on the Group's financial statements, but have not yet formed a conclusion.

(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 is exposed or has the right to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. 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. Revenues consist of cloud services, software and software maintenance, and consulting. Consulting services revenue represents the fair value of contracts completed during the period, as well as the estimated fair value of partially completed contracts at 31 December 2017. Revenue from software sales and cloud services is recognised upon shipment. Revenue from software maintenance is deferred and then recognised over the period to which it relates.

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.

(d) Goodwill

Goodwill arising on consolidation is recorded as an intangible asset and is the surplus of the fair value of the consideration payable over the Group's interest in the fair value of identifiable net assets acquired. Goodwill is reviewed annually for impairment. For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit pro rata based on the carrying amount of each asset in the unit. 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 foreign currencies are translated into the functional currency of each of the Group's entities using the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting 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 change in fair value is recognised directly in equity. The Group has elected to treat goodwill arising on acquisitions before the date of transition to IFRS as Sterling denominated.

(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 are recognised separately as an intangible asset and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method so as to charge the cost of the contracts to the income statement over the estimated useful life of 10 years.

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

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

1 an asset is created that can be identified;

2 it is probable that the asset created will generate future economic benefit;

3 it is technically and commercially feasible;

4 sufficient resources are available to complete the development;

5 the directly attributable developments cost of the asset can be measured reliably;

6 there is an intention and ability to complete an asset and use or sell it.

Development expenditure thus capitalised is reviewed for impairment after being first brought into use.

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.

(g) Plant and equipment
All plant and equipment assets are stated at cost less accumulated depreciation.

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

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

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

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

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

(h) Taxes
The tax expense represents the sum of the current tax expense and deferred tax expense.

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

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

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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 reporting 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 reporting 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 Statement of Financial Position 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.

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

(k) Share based payments
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 benefits
Contributions to defined contribution plans are recognised as an expense as the contributions accrue.

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

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

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

(q) 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. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. A calculation is done to determine the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

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 the directors considered that £213,000 (2016: £204,000) of development costs met the criteria for recognition as intangible assets as defined in IAS 38 on a project initiated during 2014. 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.

Impairment reviews have been carried out in respect of the carrying value of the investment in subsidiary undertakings included in the Company Statement of Financial Position. The value of this investment consists of the cost of the shares held in the subsidiary undertakings and the net value of loans advanced to them. As part of management's impairment review, they have exercised their judgement that the existing provisions should not be reversed at this time.

Key sources of estimation uncertainty
The directors have recognised a deferred tax asset in respect of unused tax losses to the extent that it is probable that the related tax benefits are recoverable through future taxable profits. Details of the policy adopted in respect of income taxes are disclosed in more detail in the Taxes accounting policy.

Whilst the Group has a time recording system in place which records the time spent by each developer on individual projects, management are required to estimate what element of this time directly meets the requirements of IAS 38. There is a key estimate in respect of the three senior developers' time where a proportion of their project time is not spent directly developing the products.

The directors believe that there are no key sources of estimation uncertainty in the accounts for the year, other than referred to above.

2 REVENUE AND SEGMENTAL ANALYSIS

The Group maintains a single operating segment based upon the reports which the board of directors (who are considered to be the Chief Operating Decision Maker under IFRS 8) review and use to make strategic decisions.

Analysis by geographical segment
At 31 December 2017, the Group's operations are located in the UK and in Canada.

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

	2017			2016		
	Revenue by destination £'000	**Non-current assets £'000**	**Capital expenditure £'000**	Revenue by destination £'000	Non-current assets £'000	Capital expenditure £'000
United Kingdom	**44**	**51**	**1**	33	52	1
Rest of Europe	**225**	**–**	**–**	184	–	–
North America	**964**	**2,309**	**5**	863	2,108	10
South America	**52**	**–**	**–**	163	–	–
Asia	**609**	**–**	**–**	518	–	–
	1,894	**2,360**	**6**	1,761	2,160	11

Revenues of £609,000 (2016: £452,000) are derived from an individual external customer in Asia.

3 STAFF COSTS

Employee costs, including executive directors, and including capitalised costs, during the year amount to:

	2017 £'000	2016 £'000
Wages and salaries	**1,004**	925
Social security costs	**57**	100
Pension contributions	**19**	34
Share-based payments	**43**	46
	1,123	1,105

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

	2017 No.	2016 No.
Research and development	**10**	10
Sales, marketing and customer support	**5**	5
Management and administration	**3**	4
	18	19

The number of persons employed at 31 December 2017 was 17 (2016: 18).

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

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

	Les Burnham		**Richard Alsept**		**Liam O'Donoghue**	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Salary and fees	**197**	174	**–**	24	**8**	2
Pension contributions	**16**	31	**–**	–	**–**	–
Social security costs	**22**	22	**–**	3	**–**	–
Compensation for loss of office	**–**	–	**–**	21	**–**	–
Other benefits	**6**	5	**–**	–	**–**	–
Share based payments	**30**	33	**–**	–	**–**	–
	271	265	**–**	48	**8**	2

David Ashman received no emoluments (2016: nil). Richard Alsept resigned on 12 September 2016 as a director.

One director (2016: one) was accruing a benefit under a defined contribution scheme.

During the year, employees exercised share options to purchase 162,000 (2016: 1,360,000) shares at a weighted average price of 1.50p (2016: 2.14p) per share. The options exercised in the prior year included Richard Alsept who exercised 700,000 options at 2.25p. The mid-market price of the shares at the date of exercise was 6.95p pence per share.

4 ANALYSIS OF EXPENSES BY NATURE

	2017 £'000	2016 £'000
Employee benefits expenses (note 3)	**1,123**	1,105
Less research and development costs capitalised	**(213)**	(204)
Non salary research and development costs	**35**	49
Depreciation (note 10)	**12**	15
Operating lease rentals	**66**	63
Foreign exchange losses/(gains)	**85**	(146)
Auditor's remuneration		
– Audit fees – Parent Company and consolidation	**18**	19
– Audit fees – subsidiaries	**13**	12
– Audit related assurance services – Parent Company	**–**	2
– All other non-audit services – Parent Company	**9**	8
– All other non-audit services – subsidiaries	**3**	3
– Taxation advisory services – Parent Company	**4**	4
Other operating (income)/expenses	**436**	519
Total cost of sales and administrative expenses	**1,591**	1,449

5 FINANCE INCOME

	2017 £'000	2016 £'000
Interest on short term deposits	**6**	6

6 INCOME TAX

(a) Current year tax charge/(credit)

	2017 £'000	2016 £'000
Taxation charge	**54**	67
Overseas taxation credit	**(108)**	(125)
Foreign withholding tax reversals	**50**	45
	(4)	(13)

(b) Tax reconciliation

	2017 £'000	2016 £'000
The tax charge assessed for the year differs from the applicable standard companies' rate of corporation tax in the UK. The differences are explained below:		
Profit on ordinary activities before tax	**309**	318
Tax at 19.25% (2016: 20%)	**59**	64
Effects of:		
Deferred tax not recognised	**(18)**	(1)
Expenses not deductible for tax purposes	**62**	63
Deduction for gain on share options	**–**	(13)
Tax losses utilised	**–**	(1)
Research and development tax credit (including overseas)	**(107)**	(125)
Tax credit for the year	**(4)**	(13)

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1 April 2017. Further reductions to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016 on 6 September 2016. These reduce the main rate to 17% from 1 April 2020.

7 EARNINGS PER SHARE

Earnings per share is based on the profit for the year after tax of £313,000 (2016: £331,000), and the weighted average number of ordinary shares in issue during the year of 113,854,048 (2016: 112,846,662). 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 119,241,436 (2016: 118,276,189).

8 GOODWILL – GROUP

	Total £'000
Cost	
At 1 January 2016	1,660
At 1 January 2017	1,660
At 31 December 2017	**1,660**
Accumulated impairment	
At 1 January 2016	–
At 1 January 2017	–
At 31 December 2017	**–**
Closing carrying value	
At 31 December 2017	**1,660**
At 31 December 2016	1,660
At 31 December 2015	1,660

The goodwill has arisen upon:

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

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

All of which are part of the single cash generating unit which the Group operates and generates all its revenue.

No impairment provision has been made in this year because the assets of the acquired businesses are expected to continue to generate profits in the foreseeable future.

The recoverable amount of the goodwill has been determined by value in use calculations, using pre-tax cash flow projections based on financial budgets approved by management covering a five year period. Cash flows arising from OmniMark software maintenance are extended beyond the five year period as these revenues are annual, recurring revenues which are expected to continue indefinitely. Cash flows beyond the five year period are extrapolated using a growth rate of 2% (2016: 2%). The growth rate does not exceed the long-term average growth rate for the industry. A discount rate of 10% (2016: 10%) has been assumed. The key assumptions which have been used within the value in use calculations are consistent with the forecasts and budgets used by management, and there is no reasonable change to a key assumption that would cause the recoverable amount to equal or be less than the carrying amount. The recoverable amount of the cash generating units exceeds its carrying amount.

9 OTHER INTANGIBLE ASSETS – GROUP

	Contracts £'000	Development Costs £'000	Total £'000
Cost			
At 1 January 2016	148	462	610
Additions	–	204	204
Exchange rate translation difference for assets held in foreign currency	–	56	56
At 1 January 2017	148	722	870
Additions	–	213	213
Assets written off	(148)	–	(148)
Exchange rate translation difference for assets held in foreign currency	–	(7)	(7)
At 31 December 2017	**–**	**928**	**928**
Accumulated amortisation			
At 1 January 2016	148	237	385
Exchange rate translation difference for assets held in foreign currency	–	3	3
At 1 January 2017	148	240	388
Amortisation charge for the year	–	–	–
Assets written off	(148)	–	(148)
At 31 December 2017	**–**	**240**	**240**
Closing carrying value			
At 31 December 2017	**–**	**688**	**688**
At 31 December 2016	–	482	482
At 31 December 2015	–	225	225

Contracts relate to customer contracts acquired from Proceed Holdings Limited in 2006. They have been fully amortised and are no longer utilised.

Development costs relate to the Migrate conversion service, and to the development of AuthorBridge.

Sales of Migrate commenced in 2009. Costs have been fully amortised. In 2012 expenditure totalling £14,000 representing the development of a new Migrate pipeline was capitalised. Sales for this pipeline commenced in 2012, and these have been fully amortised.

Development of AuthorBridge commenced in 2014, and was ongoing at 31 December 2017. Licence sales are expected to commence in 2018. No amortisation has been charged in 2017 on this development as the project has not yet been completed.

The amortisation charge is included within administrative expenses in the Group Income Statement.

10 PLANT AND EQUIPMENT – GROUP

	Office equipment and fixtures £'000	Computer equipment £'000	Leasehold improve-ments £'000	Total £'000
Cost				
At 1 January 2016	22	169	62	253
Additions	3	8	–	11
Exchange rate translation difference for assets held in foreign currency	6	38	22	66
Transfer	107	(107)	–	–
At 1 January 2017	138	108	84	330
Additions	–	6	–	6
Disposals	–	(1)	–	(1)
Exchange rate translation difference for assets held in foreign currency	(3)	–	(2)	(5)
At 31 December 2017	**135**	**113**	**82**	**330**
Depreciation				
At 1 January 2016	17	155	62	234
Charged in the year	5	10	–	15
Disposals	–	–	–	–
Exchange rate translation difference for assets held in foreign currency	4	37	22	63
Transfer	110	(110)	–	–
At 1 January 2017	136	92	84	312
Charge for the year	2	10	–	12
Exchange rate translation difference for assets held in foreign currency	(3)	(1)	(2)	(6)
At 31 December 2017	**135**	**101**	**82**	**318**
Net book value				
At 31 December 2017	**–**	**12**	**–**	**12**
At 31 December 2016	2	16	–	18
At 31 December 2015	5	14	–	19

The depreciation charge is included within administrative expenses in the Group Income Statement. The transfer of assets noted above for the year ended 31 December 2016 relates to office equipment held in Stilo Corporation and previously classified as computer equipment.

11 DEFERRED TAX – GROUP

Deferred tax assets comprise:

	2017 £'000	2016 £'000
At 1 January 2017	**50**	50
Unused tax losses recognised in the accounts	**–**	–
At 31 December 2017	**50**	50

At the reporting date, the Group has unused tax losses of approximately £5.0m (2016: £5.1m) available for offset against future profits. A deferred tax asset of £50,000 (2016: £50,000) has been recognised in respect of these available losses, to the extent that it is probable that the related tax benefits are recoverable through future taxable profits. No deferred tax asset has been recognised in respect of the remaining losses due to the unpredictability of future profit streams. There are no tax losses which expire in 2017 (2016: £nil).

12 TRADE AND OTHER RECEIVABLES – GROUP

	2017 £'000	2016 £'000
Trade receivables	**126**	348
Prepayments	**40**	33
VAT receivable	**4**	8
Other debtors	**–**	1
	170	390

Standard credit terms for trade receivables are 30 days from invoice date, although certain credit terms are contract-specific. All trade receivables are due within standard credit terms of 30 days. The directors consider that the carrying amount of trade and other receivables approximates their fair value. Gross trade receivables at year end were £126,000 (2016: £348,000). A bad debt reserve of £nil (2016: £nil) is provided against impaired debts. The value of debts which were past due but not impaired at year end was £82,000 (2016: £213,000). The ageing of these debts is as follows:

	2017 £'000	2016 £'000
Up to 1 month overdue	**40**	50
1–2 months overdue	**21**	2
Over 2 months overdue	**21**	161
	82	213

Trade receivables denominated in US dollars at year end were £100,000 (2016: £262,000), trade receivables denominated in Euros were £26,000 (2016: £79,000), trade receivables denominated in sterling were £nil (2016: £7,000).

13 CASH AND CASH EQUIVALENTS – GROUP

Cash and cash equivalents consist of cash on hand and short term deposits held with banks. Cash and short term deposits and cash equivalents included in the Statement of Cash Flows comprise the following Statement of Financial Position amounts:

	2017 £'000	2016 £'000
Cash on hand and balances with banks	**977**	823
Short term deposits	**644**	643
	1,621	1,466

The carrying amount of these assets approximates to their fair value.

14 TRADE AND OTHER PAYABLES – GROUP

	2017 £'000	2016 £'000
Trade payables	**21**	7
Other creditors and accrued expenditure	**158**	168
Deferred income	**313**	405
Other taxation and social security	**12**	9
	504	589

The directors consider that the carrying amount of trade and other payables approximates to their fair value. All trade payables are due within 30 days.

The average credit period taken at 31 December 2017 was 17 days (2016: 17 days).

Trade payables denominated in Canadian dollars at the year end were £4,000 (2016: £1,000), trade payables denominated in US dollars were £nil (2016: £1,000). The remaining trade payables are denominated in sterling.

15 NON-CURRENT LIABILITIES – OTHER PAYABLES – GROUP

	2017 £'000	2016 £'000
Deferred income	**13**	9

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

16 SHARE CAPITAL – GROUP AND PARENT

	2017 £'000	2016 £'000
Issued and fully paid		
113,930,470 (2016: 113,768,470) Ordinary shares of 1p each	**1,139**	1,138

162,000 (2016: 1,360,000) shares were issued during the year at a weighted average price of 1.50p (2016: 2.14p) per share, following the exercise of share options.

The Company's ordinary shares, which carry no right to fixed income, each carry the right to one vote at general meetings of the Company.

17 SHARE BASED PAYMENTS – GROUP AND PARENT

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

Date exercisable	As at 1 January 2017	Granted	Exercised/ Cancelled	**As at 31 December 2017**	Exercise price
Unapproved Scheme:					
– from 30 April 2010 to 29 April 2018	474,000	–	(162,000)	**312,000**	1.5p
– from 23 October 2011 to 22 October 2019	1,300,000	–	–	**1,300,000**	1.25p
– from 20 April 2013 to 19 April 2021	2,338,000	–	–	**2,338,000**	2.25p
– from 23 April 2016 to 23 April 2024	50,000	–	(50,000)	**–**	3.38p
– from 15 September 2017 to 14 September 2025	2,600,000	–	(50,000)	**2,550,000**	3.75p
– from 30 March 2018 to 29 March 2026	50,000	–	–	**50,000**	5.45p
EMI Scheme:					
– from 15 September 2017 to 14 September 2025	6,600,000	–	–	**6,600,000**	3.75p
– from 25 September 2016 to 24 September 2024	50,000	–	–	**50,000**	3.0p
– from 21 April 2019 to 20 April 2027	–	200,000	–	**200,000**	6.25p
	13,462,000	200,000	(262,000)	**13,400,000**	

An expense of £43,000 was recognised from share based transactions in the year (2016: £46,000).

Details of share options held by directors can be found in the Remuneration Report on page 11.

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. Options are conditional on the employee completing two years' service (the vesting period). If options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options are normally forfeited if the employee leaves the Group before the options vest.

	2017		2016	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding at 1 January	**13,462,000**	**3.17p**	14,772,000	3.07p
Granted during the year	**200,000**	**6.25p**	50,000	5.45p
Forfeited during the year	**(100,000)**	**3.57p**	–	–
Exercised during the year	**(162,000)**	**1.50p**	(1,360,000)	2.14p
Outstanding at 31 December	**13,400,000**	**3.18p**	13,462,000	3.17p
Exercisable at 31 December	**13,150,000**	**3.18p**	4,212,000	1.88p

The related weighted average share price at the time of exercise was 5.56p (2016: 6.95p) per share. The options outstanding at 31 December 2017 had an exercise price between 1.25p and 6.25p (2016: 1.25p and 3.75p), and a weighted average remaining contractual life of 6.22 years (2016: 7.11 years). The weighted average fair value of each option granted during the year was 2.19p (2016: 1.89p).

The inputs into the Black Scholes model are as follows:

	2017	2016
Weighted average share price	**6.25p**	5.45p
Weighted average exercise price	**6.25p**	5.45p
Expected volatility	**38%**	38%
Expected life	**10 years**	10 years
Risk free rate	**1%**	1%
Expected dividends	**2%**	2%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 7 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.

18 RETIREMENT BENEFIT OBLIGATIONS

The Group pension arrangements are operated through a defined contribution scheme. The amount recognised as an expense in the year ended 31 December 2017 is £19,000 (2016: £34,000).

19 CONTINGENT LIABILITIES

There are no contingent liabilities that require disclosure in the Group and Company accounts.

20 COMMITMENTS UNDER OPERATING LEASES

At 31 December 2017, the minimum lease payments under non-cancellable operating lease rentals are in aggregate as follows:

	2017		2016	
	Land and buildings £'000	**Other £'000**	Land and buildings £'000	Other £'000
Payable:				
– within 1 year	**66**	**–**	66	2
– within 2–5 years	**158**	**–**	204	–
	224	**–**	270	2

Leasing commitments relate to office rentals and office equipment.

21 FINANCIAL RISK MANAGEMENT

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

Exposures to risks are monitored by the Group, and reports are produced monthly to assess risks and to indicate their impact on the business.

The risk 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 twelve months, so that management can ensure that sufficient funding is in place as it is required.

Interest rate profile
The Group has no interest bearing financial assets other than cash deposits of £0.6m (2016: £0.6m) invested at an approximate rate of 0.5% above 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 2017 or 2016.

Maturity of financial assets and liabilities
The maturity profile of the Group's financial liabilities as at 31 December 2017 can be determined from notes 14 and 15.

The main financial assets are cash and accounts receivable. Cash is held mainly in current accounts and short term deposits. The profile of cash and receivables is shown in notes 12 and 13.

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 2017 or 31 December 2016.

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 notes 12 and 13. All financial assets have a fair value which is equal to their carrying value.

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

Foreign currency exposure
The Group operates in a number of markets across the world and is exposed to foreign exchange risk arising from various currency exposures, in particular with respect to the US dollar, Canadian dollar and the Euro. The Group is exposed to foreign currency risk arising from recognised assets and liabilities as well as commitments arising from future trading transactions. Approximately 85% of sales are denominated in US dollars and 13% of sales are in Euros. Approximately 63% of costs are in Canadian dollars. Details of accounts receivable and accounts payable denominated in foreign currencies are given in notes 12 and 14. Approximately 19% of the Group's cash is held in US dollars and 30% in Canadian dollars. As a result of a partial natural hedge between the different currencies, the Group is reasonably protected against currency fluctuations.

The Group is exposed to foreign exchange risk from commercial transactions and recognised assets and liabilities which are denominated in a currency other than the Group entities' functional currencies. In particular, the Group has significant US dollar transactions which are recorded in a Canadian dollar functional currency. At 31 December 2017 if the US dollar had weakened by 7% against the Canadian dollar, post-tax profit would have been £15,000 lower as a result of the foreign exchange losses on translation of US dollar-denominated cash and accounts receivable.

22 CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

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

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

There is no external debt in the Group.

23 RELATED PARTY TRANSACTIONS

Transactions with related parties were as follows:

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

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 were £244,000 (2016: £242,000).

Management fees charged by Stilo Technology Limited to Stilo International plc were £200,000 (2016: £200,000).

Fee for use of IP charged by Stilo Technology Limited to Stilo Corporation was £214,000 (2016: £217,000).

Cost recharge from Stilo Corporation to Stilo Technology Limited was £10,000 (2016: £14,000).

At 31 December 2017 the following balances were owed by companies within the same Group and have no fixed repayment dates:

Owed by Stilo Technology Limited to Stilo International plc £4,149,000 (2016: £4,217,000) which is included within investments within Stilo International plc after provisions of £4,090,000 (2016: £4,090,000).

Loan owed by Stilo Corporation to Stilo International plc £866,000 (2016: £866,000) which is included within investments within Stilo International plc after provisions of £595,000 (2016: £595,000).

Owed by Stilo Technology Limited to Stilo Corporation £81,000 (2016: £71,000).

Dividends paid to directors were:

David Ashman £18,462 (2016: £18,462)

Leslie Burnham £5,800 (2016: £5,800)

24 BANK GUARANTEES

There were no bank guarantees given by the Company at 31 December 2017 or at 31 December 2016.

25 INVESTMENT IN SUBSIDIARIES

Parent Company Only

	Investments in subsidiaries £'000	Loans to subsidiaries £'000	Total £'000
Cost or brought forward balance:			
At 1 January 2016	1,223	5,114	6,337
Recharge of share based payment expense/(repayment of loans)	46	(30)	16
At 1 January 2017	1,269	5,084	6,353
Recharge of share based payment expense/(repayment of loans)	43	(68)	(25)
At 31 December 2017	**1,312**	**5,016**	**6,328**
Provisions:			
At 1 January 2016	369	4,685	5,054
At 1 January 2017	369	4,685	5,054
At 31 December 2017	**369**	**4,685**	**5,054**
Net book value:			
At 1 January 2016	854	429	1,283
At 1 January 2017	900	399	1,299
At 31 December 2017	**943**	**331**	**1,274**

The net book value of investments is stated after impairment write-downs and provisions against loans and investments of £5,054,000 (2016: £5,054,000).

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 subsidiaries.

Name of Company	Address of the registered office	Shareholding	Nature of Business
Stilo Technology Limited (1)	(a)	100%	Sale of software and services
Stilo Corporation (1)	(b)	100%	Sale of software and services
OmniMark Technologies Inc (2)	(c)	100%	Dormant

(1) Directly owned by Stilo International Plc.
(2) Owned by Stilo Corporation.
(a) Regus House, Windmill Hill Business Park, Whitehill Way, Swindon, Wiltshire, SN5 6QR.
(b) 1900 City Park Drive, Suite 504, Ottawa, Ontario K1J 1A3, Canada.
(c) 1900 City Park Drive, Suite 504, Ottawa, Ontario K1J 1A3, Canada.

26 DIVIDENDS

	2017 £'000	2016 £'000
Final paid (0.05 pence per share) (2016: 0.05 pence per share)	**57**	56
Interim paid (0.05 pence per share) (2016: 0.04 pence per share)	**57**	46
	114	102

The proposed final dividend for the year of 0.05 pence per share (2016: 0.05 pence per share) is not included as a liability in the financial statements as it is subject to shareholders' approval.

27 FINANCIAL INSTRUMENTS

	2017 £'000	2016 £'000
Financial assets – Loans and receivables		
Trade and other receivables	**130**	357
Cash and cash equivalents	**1,621**	1,466
	1,751	1,823

	2017 £'000	2016 £'000
Financial liabilities – Financial liabilities at amortised cost		
Trade and other payables	**179**	175

Notice is hereby given that the Annual General Meeting of Stilo International plc (the "Company") will be held at the offices of RSM UK Audit LLP, 25 Farringdon Street, London EC4A 4AB on 23 May 2018 at 11.30 am to transact the following business:

ORDINARY BUSINESS

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

Accounts
Resolution 1: To receive and consider the Company's annual accounts for the year ended 31 December 2017, together with the Directors' Report and Auditor's Report thereon.

Final Dividend
Resolution 2: To declare a final dividend of 0.05 pence per ordinary share for the financial year ended 31 December 2017.

Directors
Resolution 3: To re-elect as a Director, David Ashman, who retires in accordance with Regulation 82 of the Company's Articles of Association and, being eligible, offers himself for re-election as a Director of the Company. A short biography is provided on page 12 of the Annual Report and Accounts.

Auditors
Resolution 4: To reappoint RSM UK Audit LLP, Registered Auditors as Auditors to the Company from the conclusion of the meeting until the conclusion of the next Annual General Meeting at which the accounts for the Company are presented, and to authorise the Board of Directors to fix their remuneration.

SPECIAL BUSINESS

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

Resolution 5: That the directors of the Company be and they are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "2006 Act") to exercise all the powers of the Company to allot shares and grant rights to subscribe for, or convert any security into, shares:

(a) up to an aggregate nominal amount (within the meaning of section 551(3) and (6) of the 2006 Act) of £379,768; and

(b) comprising equity securities (as defined in section 560 of the 2006 Act) up to an aggregate nominal amount (when added to any allotments made under (a) above) of £759,536 in connection with or pursuant to an offer or invitation by way of a rights issue in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment (and holders of any other class of equity securities entitled to participate therein or, if the directors consider it necessary, as permitted by the rights of those securities), but subject to such exclusions or other arrangements as the directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any regulatory body or stock exchange in any territory.

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

Resolution 6: That, subject to the passing of resolution 5, the directors of the Company be and they are hereby empowered pursuant to section 570 of the Companies Act 2006 (the "2006 Act") to allot equity securities (as defined in section 560 of the 2006 Act) of the Company for cash pursuant to the authority conferred by resolution 5 as if section 561 of the 2006 Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash:

(a) in connection with or pursuant to an offer or invitation (but in the case of the authority granted under resolution 6(b), by way of a rights issue only) in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment (and holders of any other class of equity securities entitled to participate therein or if the director consider it necessary, as permitted by the rights of those securities) but subject to such exclusions or other arrangements as the directors may deem necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any regulatory body or stock exchange in any territory or otherwise howsoever; and territory or otherwise howsoever; and

(b) in the case of the authority granted under resolution 5(a) above, and otherwise than pursuant to paragraph (a) of this resolution, for cash up to an aggregate nominal amount of £113,930 being approximately (and not more than) 10% of the Company's issued ordinary share capital (excluding treasury shares) as at the date of the Notice of this meeting.

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

Resolution 7: That the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares with nominal value of 1 penny each of the Company, on such terms and in such manner as the directors may from time to time determine, provided that:

(a) the maximum number of ordinary shares of 1 penny nominal value hereby authorised to be purchased is 11,393,047;

(b) the minimum price, exclusive of any expenses, which may be paid for an ordinary share is 1 penny;

(c) the maximum price, exclusive of any expenses, which may be paid for any such share is an amount equal to 105% of the average of the middle market quotations for an ordinary share in the Company taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which such share is contracted to be purchased;

(d) any ordinary shares purchased pursuant to this authority shall be cancelled, or, if the directors so determine, held as treasury shares;

(e) the authority hereby conferred shall expire on the close of the next Annual General Meeting of the Company or, if earlier, on 23 August 2019 unless previously renewed, revoked or varied by the Company in general meeting; and

(f) the Company may make a contract for the purchase of its ordinary shares under this authority before the expiry of this authority which would or might be executed wholly or partly after the expiry of such authority and may make purchases of its ordinary shares in pursuance of such a contract as if such authority had not expired.

By order of the Board

Liam O'Donoghue, Company Secretary
14 March 2018

NOTES:

1 Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact the Company Secretary, Liam O'Donoghue, on +44 (0)20 7583 8304, or the Company registrars, Link Asset Services. If you have any questions, please call Link Asset Services on 0871 664 0300. Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300 between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales. Calls outside the United Kingdom will be charged at the applicable international rate.

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

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

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

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

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

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

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

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

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

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

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

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

(c) the register of interests of the directors and their families in the share capital of the Company.

EXPLANATORY NOTES TO THE RESOLUTIONS

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

Resolutions 1 to 5 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half the votes cast must be in favour of the resolution.

Resolutions 6 and 7 are proposed as special resolutions. This means that for those resolutions to be passed, at least three quarters of the votes cast must be in favour of the resolution.

ORDINARY BUSINESS

Resolution 1: To receive and consider the Company's annual accounts
The directors present the accounts and the reports of the directors and auditors for the year ended 31 December 2017.

Resolution 2: Final Dividend
Final dividends are approved by shareholders but cannot be more than the amount recommended by the directors. The directors have recommended a final dividend for the year ended 31 December 2017 of 0.05 pence per ordinary share due and payable on 30 May 2018 to the shareholders on the register at close of business on 20 April 2018. This resolution seeks shareholder approval of the proposed dividend.

Resolution 3: Re-election of Directors
Pursuant to the Regulation 82 of the Company's articles of association, at each annual general meeting of the Company all those directors who have been in office for three years or more since their last election or re-election shall retire from office. This is in accordance with section 1 of the Combined Code on Corporate Governance and Code of Best Practice (the "Combined Code") which requires all directors to submit themselves for re-election at least every three years. As an AIM listed company, the provisions of the Combined Code are not strictly binding on the Company but are considered to be best practice. Therefore, David Ashman having been last re-elected in 2015 is retiring and offering himself for re-election.

Resolution 4: Reappointment and remuneration of auditors
It is proposed that RSM UK Audit LLP be re-appointed as auditors to the Company and that the directors be authorised to determine their remuneration.

Resolution 5: Authority to allot shares

This resolution proposes that the directors' authority to allot shares be renewed. The authority previously given to the directors at the last AGM of the Company will expire at this year's AGM. Under the Companies Act 2006, the directors of the Company may only allot shares or grant rights to subscribe for or convert into shares if authorised to do so. Paragraph (a) of resolution 5 will allow the directors to allot new shares or grant rights up to an aggregate nominal value of £379,768, which is equal to approximately one third of the total issued ordinary share capital of the Company as at the date of this notice (excluding treasury shares). In line with corporate governance guidelines, paragraph (b) will allow the directors to allot equity securities up to an aggregate nominal amount (when added to allotments under part (a) of this resolution) of £759,536 where the allotment is in connection with a rights issue. These amounts represent approximately one third and two thirds respectively of the total issued ordinary share capital (excluding treasury shares) as at the date of this notice. As at the date of this notice, the Company did not hold any shares in treasury. If passed the authority given by this resolution will expire at the conclusion of the Company's next Annual General Meeting. The directors have no present intention to allot new shares or grant rights (other than in respect of the Company's share option schemes and plans). The directors may, however, consider doing so if they believe it would be appropriate in respect of business opportunities that may arise consistent with the Company's strategic objectives.

Resolution 6: Disapplication of pre-emption rights

Under the Companies Act 2006, if the directors wish to allot shares for cash (other than in connection with an employee share scheme) they must first offer them to existing shareholders in proportion to their holdings (a "pre-emption offer"). There may be occasions, however, when the directors will need the flexibility to finance business opportunities by the issue of ordinary shares without making a pre-emption offer to existing shareholders. This resolution seeks to renew the directors' power to allot equity securities in certain limited circumstances otherwise than in relation to a pre-emption offer. The power granted at the last AGM is due to expire at this year's AGM. Apart from pre-emption offers, the power is limited to the allotment of equity securities for cash up to an aggregate nominal value of £113,930 (being approximately – but not more than – 10% of the issued ordinary share capital (excluding treasury shares) as at the date of this notice). If given, this power will expire at the conclusion of the 2019 AGM. The Board does not intend to issue more than 7.5% of the issued share capital of the Company on a non-pre-emptive basis in any rolling three-year period. This is in line with corporate governance guidelines.

Resolution 7: Authority to purchase ordinary shares

This resolution is to allow the Company authority to make market purchases of its own shares. The authority should not be taken to imply that shares will be purchased at any particular price or, indeed, at all, and the Board has no present intention of exercising this power but would wish to retain the flexibility to do so in the future. The authority will expire at the earlier of the conclusion of the next Annual General Meeting or 23 August 2019. The Board intends to seek renewal of this power at subsequent Annual General Meetings. The resolution specifies the maximum number of shares which may be purchased (representing approximately 10% of the Company's issued ordinary share capital as at 14 March 2018) and the maximum and minimum prices at which they may be bought, reflecting legal and regulatory requirements. Any purchases would only be made on the London Stock Exchange. The directors have not yet decided whether such shares, if repurchased, would be cancelled or taken into treasury, and a decision would be taken in the light of prevailing circumstances. The Board will only exercise the power to make purchases of shares after consideration of the effects on earnings per share and the benefits for Shareholders generally.

stilo international plc

FORM OF PROXY
FOR USE AT THE ANNUAL GENERAL MEETING OF
STILO INTERNATIONAL plc
ON 23 MAY 2018

I/We ____

of ____

(Please complete in block capitals)

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

____

as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at the offices of RSM UK Audit LLP, 25 Farringdon Street, London EC4A 4AB on 23 May 2018 at 11.30 am 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**	**Withheld**
Ordinary Resolutions			
1 To receive and adopt the Directors' Report and Accounts for the year ended 31 December 2017			
2 To approve the final dividend for the year ended 31 December 2017			
3 To reappoint David Ashman as a Director			
4 To reappoint RSM UK Audit LLP as Auditors to the Company and to authorise the directors to fix their remuneration			
Special Business			
Ordinary Resolution			
5 To authorise the directors to allot relevant securities			
Special Resolutions			
6 To authorise the directors to allot equity securities and to disapply statutory pre-emption rights in relation to the issue of certain equity securities			
7 To authorise the directors to purchase ordinary shares			

Names of joint holders (if any) ____

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

Signature ______________________ Dated ______________________ 2018

Notes:

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

2 Please 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.

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

4 To be valid any proxy form or other instrument appointing a proxy and any power of attorney under which it is executed (or a duly certified copy of any such power of authority), must be received by post or (during normal business hours only) by hand at the office of the Company's registrars Link Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF no later than 48 hours before the time appointed for holding the meeting.

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

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

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

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

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

Third Fold and Tuck in

Business Reply Plus
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BR3 4ZF

First Fold

Second Fold


experience XML in a whole new way
exceptional tools for structured content solutions
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