Annual Report and Accounts

for the year ended 31 December 2007

stilo international plc

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CHAIRMAN'S STATEMENT

I am pleased to announce Stilo's results for the twelve months ended 31 December 2007 and to report upon the continued progress made by the Company during the period.

Strategy

Stilo provides software and services to help major enterprises automate the processing of technical and complex information.

Operating from offices in the UK and Canada, we support customers in Aerospace & Defence, Manufacturing, IT, Telco, High Tech, Publishing and Government. Our clients include Boeing, Airbus, IBM, SAP, BAe, Wolters Kluwer, Thomson Publishing, British Library, Japan Patent Office and the European Parliament.

In the latter part of 2007, we re-organised our operations into the following complementary business divisions, to better reflect our key sales and marketing focus i.e.

- Content Processing Solutions
- On-Demand Content Migration Services
- Solutions for users of SAP ERP systems

In each area of expertise, Stilo can justifiably claim a position of market leadership.

Results

The company is pleased to announce that it has returned a trading profit for the second consecutive year. In 2007, results show a trading profit (before exceptional items and amortisation of intangibles) for the year of £73,000 (2006: £9,000). For the first time, there was a profit from continuing operations, after taxation of £94,000 (2006: restated – £144,000 loss).

Total sales revenue for the period increased by 8 per cent to £2,436,000 (2006: £2,264,000).

Administrative expenses, excluding exceptional items, rose slightly in the year to £2,128,000 (2006: £2,102,000) although this includes a full year of the SAP solutions business acquired in August 2006 from Proceed Engineering Solutions. In Europe, with the closure of the Paris office, cost savings of £230,000 were achieved, compared to 2006. European operations are now centred in the UK.

Non-recurring exceptional costs for the year totalled £105,000, consisting of staff redundancy costs, associated legal fees and office closure costs.

At 31 December 2007, the cash position had reduced to £236,000 (2006: £420,000), although there were higher trade receivables at 31 December 2007, and collection of these in the early part of 2008, meant that by 29 February 2008, the group cash position was £466,000.

In the Content Processing Solutions business, sales decreased to £1,602,000 (2006: £1,840,000), primarily as a result of declining software orders and customer delays in placing project service contracts. However, this was offset by cost reductions in Europe referred to above. Professional services revenue in North America increased by 22 per cent to £409,000 (2006: £334,000), and the Content Processing business overall continued to be underpinned by recurring annual software maintenance revenues of £731,000 in 2007, generated from 170 customer contracts.

The group suffered adverse effects from trading in North America with revenue deflated as a result of a weak US dollar. The adverse impact on the results was £95,000 compared to the average rates in 2006.

Research and development expenditure totalled 10 per cent of sales revenues, at £245,000 (2006: £168,000), including investment relating to the ongoing development of OmniMark and the development of Stilo Migrate which commenced in the second half of 2007. Expenditure on Stilo Migrate has been capitalised in 2007 as an intangible asset.

The SAP Solutions business achieved sales revenue of £834,000 in the year (2006: £424,000) and made a positive contribution to overall profitability.

In August 2007 the Company paid a sum of £90,000 in deferred consideration ("Initial Deferred Consideration") to Proceed Holdings. The Initial Deferred Consideration was payable based upon the achievement of a turnover target of no less than £750,000 for Engineering Solutions in the year ended 31 July 2007. As announced at the time of the acquisition, Proceed Holdings agreed to reinvest the sum of £90,000 by subscribing for 4,500,000 new 1p Ordinary shares in Stilo at 2p per share.

The accompanying results for the year ended 31 December 2007 have been prepared for the first time (for a full year) in accordance with International Financial Reporting Standards as adopted by the European Union as now required for AIM companies.

Content Processing Solutions

Stilo specialises in building high-performance content processing solutions that acquire, enrich and ultimately deliver content to enterprise information portals and supply chain partners.

With over twenty years experience in content engineering, we build solutions that process content in all its forms, including combinations of data, plain text, hypertext and markup text (XML, SGML, HTML). Typical applications include performance support portals for equipment maintenance engineers in the Aerospace and Defence, Automotive and Engineering sectors, where immediate access to detailed information can be of critical importance.

We are particularly pleased to report the successful completion in late 2007 of a collaborative software development with a major Air Cargo Services provider in North America. Details remain confidential, prior to its planned launch in April 2008, but the application will be marketed by our development partner into the Aviation sector, with Stilo providing technical support services to prospective customers as required. We are optimistic as to the potential new market opportunity this represents.

When developing content processing solutions for clients, we typically deploy Stilo's OmniMark content processing platform within enterprise information architectures. OmniMark is a well-proven technology, designed from the ground up, to address the requirements of high-performance, enterprise content processing applications. It is used throughout the content lifecycle, including the initial conversion of content from legacy formats to XML/SGML, and during the enrichment and delivery of that content to publishing systems or other target applications.

OmniMark is deployed in publishing systems across a range of market sectors. Customers for OmniMark during the period included Boeing, Wolters Kluwer, IBM, International Atomic Energy Agency and the European Parliament. The British Library was a new customer in 2007, using OmniMark in their e-journals INGEST project, whereby the Library will accept e-journals from Scientific & Technical publishers, archive them, and subsequently make them generally available online. The project forms one part of a wider Library initiative to archive and manage a whole range of digital publications in the future.

On-Demand Content Migration Services

During 2007 we began the development of Stilo Migrate, the world's first on-demand content migration service. It is the embodiment of Stilo's extensive content engineering expertise and advanced content processing technology, and is reflective of the general market adoption of Software as a Service (SaaS). Scheduled to launch in 2008, Stilo Migrate is set to revolutionise the market for content migration services, massively simplify the content conversion process, and significantly reduce associated project timescales and costs. Accessible 24x7 from anywhere in the world, it will enable users to upload source documents over the internet and migrate content to target XML formats, on a pay-as-you-use basis.

Stilo is very encouraged at the potential market opportunity and the initial interest shown by leading companies, as XML becomes increasingly adopted by organisations around the world for single-source publishing applications.

Solutions for users of SAP ERP systems

In the UK, Stilo provides consulting services to users of SAP ERP systems, specialising in the disciplines of Product Lifecycle Management and Document Management. We offer global clients high-level strategic consulting and development services, and our customers include Augusta Westland, BAe Systems and Waters Micromass. In late 2007 we launched the first of a range of low-cost Stilo software solutions that enable customers to rapidly extend the functionality, and therefore value, of existing SAP ERP installations.

Research and Development

In 2007 we invested 10 per cent of sales revenues in Research and Development and intend to increase this further in 2008, primarily in the ongoing development of OmniMark and Stilo Migrate. Both OmniMark v9 and the initial version of Stilo Migrate are scheduled for release in 2008.

Operations

During 2007, European operations were consolidated in the UK, with the closure of Stilo SARL and the Paris office. Significant cost savings have been made as a result, whilst customer service levels have been maintained.

As at 31 December 2007, the group employed 27 full-time employees, with 14 located in North America and 13 in Europe.

Outlook

The Company has made steady progress in 2007, increasing both sales revenues and profits, notwithstanding the adverse exchange rate effects of trading in North America.

Having consolidated operations in Europe, we have invested significantly in the development of Stilo Migrate, the world's first on-demand content migration service, due to be released in 2008. We have received considerable early interest in Migrate, and have already won an initial order from a major high-tech customer prior to its general release. With a strong opening order book for professional services in North America, the impending launch of a new, jointly developed solution for the Aviation industry, and the release of OmniMark v9 later in 2008, we look forward to the future with confidence.

Barry Welck
Chairman

3 April 2008

DIRECTORS' REPORT

The Directors present their report together with the audited accounts of the Group and the Company for the year ended 31 December 2007.

Principal activity

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

Business Review

Business Risk and Key Performance Indicators

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

- Sales performance, including monitoring current and forecast sales against plans and review of sales pipeline.
- Debtors including ageing, debtor day trends and cash collection.
- Human resources KPI's, employee numbers, including added value and health and safety monitors.
- Professional staff utilisation rates.
- Costs and overheads, including monitoring variable costs such as sub-contractors, reviewing costs against plan, and forecasting short term expected variations in overheads.

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

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

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

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

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

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

Results and dividends

The Group profit for the year after taxation was £94,000 (2006 (restated): £144,000 loss). The Directors do not recommend the payment of a dividend (2006: £nil).

Directors and their interests

The Directors who served during the year, and their beneficial interests in the share capital of the Company are shown in the Remuneration Report on pages 8 to 9.

Substantial shareholdings

At 31 March 2008 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
S J Buswell	4,084,416	3.90%
S C Healey	3,384,416	3.23%
Professor E R Pike	4,187,416	4.00%
Mossland Limited	3,800,000	3.63%
Marlborough Fund Managers (Hargreaves Hale)	5,000,000	4.77%
Brewin Dolphin Limited	13,834,382	13.21%
N Parkin and Proceed Holdings Limited	9,000,000	8.59%

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

Directors' responsibilities

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

UK Company law requires the directors to prepare Group and Company Financial Statements for each financial year. Under that law the directors have elected to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and have elected to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The company financial statements are required by law to give a true and fair view of the state of affairs of the company.

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

(a) select suitable accounting policies and then apply them consistently;

(b) make judgements and estimates that are reasonable and prudent;

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

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

Political and charitable contributions

During the year the Group made donations of £nil (2006: £nil) to local charities. The Group made no political donations (2006: £nil).

Payments to suppliers

The Group's policy is to pay suppliers as early as possible having regard to cash flow considerations. As at 31 December 2007 the Group's trade creditors represented 38 days' purchases (2006: 39 days).

Employees

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

Environment

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

Statement as to disclosure of information to the auditor

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

Auditor

The Directors, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor auditor with effect from 1 April 2007. Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

Approved by the Directors and signed by order of the Board

Richard Alsept
Company Secretary

3 April 2008

REMUNERATION REPORT

Membership

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

Policy statement

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

Service contracts

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

Directors' remuneration (audited)

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

	Salary and fees £'000	Other benefits £'000	Pension £'000	Bonus £'000	**2007 Total £'000**	2006 Total £'000
Executive						
L Burnham	130	3	11	–	**144**	134
Non-executive						
B H Welck	14	–	–	–	**14**	14
D Ashman	–	–	–	–	**–**	–
	144	3	11	–	**158**	148

Directors' interests (audited)

The interests of the Directors at 31 December 2007 in the shares of the company were as follows:

	31 December 2007 Number of ordinary shares	1 January 2007 Number of ordinary shares
Executive		
L Burnham*	**3,000,000**	3,000,000
Non-executive		
D Ashman	**7,900,000**	7,900,000
B H Welck	**2,125,000**	2,125,000

* through a self invested pension plan

Share option scheme (audited)

At 31 December 2007 the following share options were held by Directors:

	1 January 2007	Number granted in the year	Number cancelled in the year	31 December 2007	Exercise price	Date from which exercisable	Expiry date
L Burnham	1,800,000	–	–	1,800,000	3p*	17 March 2005	No expiry
L Burnham	800,000	–	–	800,000	2.5p**	14 April 2004	No expiry

* exercisable as follows:

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

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

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

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

The market price of the Company's shares at the end of the financial year was 1.38p and the range of the market prices during the year ended 31 December 2007 was between 1.13p and 2.38p.

Non-executive Directors

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

Barry Welck

Remuneration Committee Chairman

3 April 2008

DIRECTORS AND OFFICERS

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

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

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

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

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

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

Officers:

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

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REGISTERED NUMBER
03893693

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BROKER
Charles Stanley Securities
25 Luke Street
London EC2A 4AR

REGISTRAR
Capita IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

CORPORATE GOVERNANCE

Compliance

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

Directors

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

The Board consists of one executive Director, who holds a key operational position in the Company, and two non-executive Directors who bring a breadth of experience and knowledge. The current Board members are described on page 10.

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

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

Relations with shareholders

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

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

Audit committee

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

Internal controls

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

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

Going concern

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

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report to the Members of Stilo International plc

We have audited the group and parent company financial statements on pages 14 to 44.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union ("EU"), and for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement that is cross referred from the "Business Risk and Key Performance Indicators" section of the Directors' Report and the information on directors' interests presented in the Remuneration Report that is cross referred to from the "Directors and their interests" section of the Directors' Report.

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

BAKER TILLY UK AUDIT LLP
Registered Auditor
Chartered Accountants

Hartwell House
55-61 Victoria Street
Bristol BS1 6AD

3 April 2008

GROUP INCOME STATEMENT
for the year ended 31 December 2007

	Note	2007 £'000	2006 Restated £'000
Revenue – continuing operations	2	**2,436**	2,264
Cost of sales		**(240)**	(157)
Gross profit		**2,196**	2,107
Administrative expenses		**(2,128)**	(2,102)
Exceptional expenses	4	**(105)**	(169)
Write down of intangible assets		**(30)**	–
Operating loss	4	**(67)**	(164)
Finance Income	5	**5**	4
Loss before tax		**(62)**	(160)
Income tax	6	**156**	16
Profit/(loss) for the year		**94**	(144)
Earnings/(loss) per share – basic and diluted	7	**0.09p**	(0.16)p

GROUP STATEMENTS OF TOTAL RECOGNISED INCOME AND EXPENSE
for the year ended 31 December 2007

	2007 £'000	2006 Restated £'000
Income and expense recognised directly in equity		
Foreign currency translation differences	**26**	(32)
Net income/(expense) recognised directly in equity	**26**	(32)
Profit/(loss) for the year	**94**	(144)
Total recognised income and expense for the year attributable to the equity shareholders or the parent	**120**	(176)

The notes on pages 17 to 39 form an integral part of these consolidated financial statements.

GROUP BALANCE SHEET

as at 31 December 2007

	Note	2007 £'000	2006 Restated £'000
Non-current assets			
Goodwill	8	**1,671**	1,656
Other intangible assets	9	**224**	148
Plant and equipment	10	**32**	37
Deferred tax assets	11	**100**	–
		2,027	1,841
Current assets			
Trade and other receivables	12	**725**	574
Income tax asset		**56**	17
Cash and cash equivalents	13	**236**	420
		1,017	994
Total Assets		**3,044**	2,835
Current liabilities			
Trade and other payables	14	**765**	647
Long Term liabilities			
Other payables	15	**51**	80
Total liabilities		**816**	727
Equity attributable to equity holders of the parent			
Called up share capital	16	**5,568**	5,523
Shares to be issued		**–**	45
Share premium account	18	**5,485**	5,485
Merger reserve	18	**658**	658
Retained earnings	18	**(9,483)**	(9,603)
Total equity		**2,228**	2,108
Total Equity and Liabilities		**3,044**	2,835

These accounts were approved by the Board of Directors and authorised for issue on 3 April 2008 and signed on its behalf by:

Leslie Burnham

Chief Executive Officer

The notes on pages 17 to 39 form an integral part of these consolidated financial statements.

GROUP CASH FLOW STATEMENT
for the year ended 31 December 2007

	Note	2007 £'000	2007 £'000	2006 Restated £'000	2006 Restated £'000
Cash flows from operating activities					
Loss before taxation		(62)		(160)	
Adjustment for depreciation and amortisation		61		38	
Adjustment for investment income		(5)		(4)	
Adjustment for foreign exchange differences		11		–	
(Increase)/decrease in trade and other receivables		(168)		17	
Increase in trade and other payables		89		23	
Cash generated from operations			(74)		(86)
Tax credit received			17		57
Net cash from operating activities			(57)		(29)
Cash flows from investing activities					
Finance income			5		4
Acquisition of intangible assets			(106)		–
Purchase of plant and equipment			(26)		(11)
Consideration on 'Proceed' assets acquisition	8		(90)		(108)
Net cash used in investing activities			(217)		(115)
Financing activities					
Issue of ordinary share capital			90		191
Net cash in from financing activities			90		191
Net (decrease)/increase in cash and cash equivalents			(184)		47
Cash and cash equivalents at beginning of year			420		373
Cash and cash equivalents at end of year	13		236		420

The notes on pages 17 to 39 form an integral part of these consolidated financial statements.

1. Accounting policies

(a) Basis of Preparation

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

These financial statements have been prepared for the first time in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and International Financial Reporting Committee ("IFRC") interpretations that are expected to be applicable to the consolidated financial statements for the year ending 31 December 2007, and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 27.

The basis of preparation and accounting policies differ from those set out in the Annual Report and Accounts for the year ended 31 December 2006 which were prepared in accordance with United Kingdom accounting standards (UK GAAP). These have been restated under IFRS as set out in note 27.

The consolidated financial statements have been prepared in accordance with IFRS including standards and interpretations issued by the International Accounting Standards Board, as adopted by the European Union. They have been prepared using the historical cost convention.

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

Exemptions taken on first time adoption of IFRS 1

Business Combinations: The group has applied the exemption from retrospectively recalculating goodwill which arose on acquisitions prior to 1 January 2006. This goodwill is included at its deemed cost, being the amount recorded under UK GAAP as at 1 January 2006 following an impairment review. Acquisitions after 1 January 2006 have been recorded in accordance with IFRS3.

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:

IAS23 (Amended) – Borrowing costs
IFRS 8 – Operating Segments
IFRIC 11 – Group and Treasury Share Transactions
IFRIC 12 – Service Concession Arrangements
IFRIC 13 – Customer loyalty programmes
IFRIC 14 – IAS19 – The limit on a defined benefit asset, minimum funding requirements and their interaction.

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group when the relevant standards and interpretations come into effect.

(b) Basis of consolidation

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

1. Accounting policies *continued*

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

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

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

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

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

(c) Turnover and revenue recognition

Turnover represents the fair value of goods and services supplied and is stated net of value added tax. Contract income represents the fair value of contracts, which were completed during the period, as well as the estimated fair value of partially completed contracts at 31 December 2007.

(d) Goodwill

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

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

The Group has elected to take the exemption available under IFRS1 not to apply IFRS3 retrospectively to business combinations occurring prior to the date of transition to IFRS. Goodwill arising on such acquisitions has therefore been retained at its UK GAAP carrying value at 1 January 2006, having been satisfactorily tested for impairment at that date.

Acquisitions after 1 January 2006 have been recorded in accordance with IFRS3.

(e) Foreign currency translation

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

1. Accounting policies *continued*

(f) Intangible assets other than goodwill

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

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

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

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

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

Development expenditure thus capitalised is amortised on a straight-line basis over its useful life of three years. Where the criteria are not met, development expenditure is recognised as an expense in the income statement.

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

(g) Plant and equipment

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

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

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

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

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

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

1. Accounting policies *continued*

(h) Taxes

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

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

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

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

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

(i) Fair values

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

(j) Financial instruments

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

Trade receivables

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

Cash and cash equivalents

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

Financial liabilities and equity

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

1. Accounting policies *continued*

Bank borrowings

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

(k) Share based payments

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

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

No significant charge has arisen in this or the previous year and therefore no charge has been booked.

(l) Retirement benefit

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

(m) Leases

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

(n) Provisions

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

(o) Deferred income

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

(p) Earnings per share

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

(q) Critical accounting estimates and areas of judgement

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

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

(r) Segmental reporting

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

1. Accounting policies *continued*

(s) Trade payables

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

2. Turnover and segmental analysis

At 31 December 2007, the group is organised on a worldwide basis into two main business segments:

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

The segment results for the year ended 31 December 2007 are as follows:

	2007		2006 (restated)	
	Revenue £'000	Profit/(loss) £'000	Revenue £'000	Profit/(loss) £'000
Content Processing	1,602	276	1,840	116
SAP solutions	834	24	424	44
Unallocated corporate expenses	–	(367)	–	(324)
Interest income	–	5	–	4
Income taxes	–	156	–	16
	2,436	94	2,264	(144)

	2007			2006 (restated)		
	Assets £'000	Liabilities £'000	Net assets £'000	Assets £'000	Liabilities £'000	Net assets £'000
Content Processing	2,595	732	1,863	2,438	669	1,767
SAP solutions	449	84	365	397	58	341
	3,044	816	2,228	2,835	727	2,108

Other segmental information:

	2007			2006 (restated)		
	Capital Additions £'000	Depreciation £'000	Amortisation £'000	Capital Additions £'000	Depreciation £'000	Amortisation £'000
Content Processing	18	28	–	9	37	–
SAP solutions	8	3	30	2	1	–

Analysis by geographical segment

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

2. Turnover and segmental analysis *continued*

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

	2007 Sales by destination £'000	2007 Total Assets £'000	2007 Capital Expenditure £'000	2006 (restated) Sales by destination £'000	2006 (restated) Total Assets £'000	2006 (restated) Capital Expenditure £'000
United Kingdom	**837**	**778**	**8**	430	455	2
Rest of Europe	**457**	**–**	**–**	475	–	–
North America	**961**	**2,266**	**18**	1,042	2,380	9
Asia	**158**	**–**	**–**	279	–	–
South America	**5**	**–**	**–**	–	–	–
South Africa	**11**	**–**	**–**	6	–	–
Australasia	**7**	**–**	**–**	32	–	–
	2,436	**3,044**	**26**	2,264	2,835	11

3. Staff costs

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

	2007 £'000	2006 £'000
Wages and salaries	**1,434**	1,210
Redundancy costs	**53**	88
Social security costs	**153**	175
Pension contributions	**40**	20
	1,680	1,493

There are no material share based payments in the current or previous financial period.

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

	2007 No.	2006 No.
Research and development	**3**	3
Sales, marketing and services	**20**	18
Management and administration	**6**	6
	29	27

The number of persons employed at 31 December 2007, including non-executive Directors, was 27.

Directors' emoluments

	2007 £'000	2006 £'000
Salary and fees	**144**	135
Pension contributions	**11**	11
	155	146

One director (2006: one) was accruing a benefit under a defined benefit scheme. More details of the remuneration paid to Directors can be found in the Remuneration Report on pages 8 and 9.

4. Operating loss

Operating loss is stated after charging:

	2007 £'000	2006 (restated) £'000
Depreciation of owned tangible fixed assets	**31**	38
Amortisation of intangible fixed assets	**30**	–
Operating lease rentals		
– Land and buildings	**78**	143
– Other	**14**	24
Research and development	**139**	155
Auditors' remuneration		
– Audit fees – parent company	**14**	13
– Audit fees – subsidiaries	**23**	21
– Non audit services – parent	**3**	2
– Non audit services – subsidiaries	**14**	14
Exceptional items – redundancy costs, including legal costs	**88**	88
– office closure costs	**17**	10
– contract losses	**–**	71

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

	2007 £'000	2006 £'000
Baker Tilly UK Audit LLP (2006 – Baker Tilly)		
Fees in respect of the parent's annual accounts – year of audit	**14**	13
Fees in respect of subsidiary's annual accounts – year of audit	**7**	7
Fees in respect of interim report – parent	**3**	2
	24	22
Grant Thornton		
Fees in respect of a subsidiary's annual accounts – year of audit	**11**	10
Fees in respect of taxation work	**14**	14
	25	24
ECG		
Fees in respect of a subsidiary's annual accounts – year of audit	**5**	4

5. Finance income

	2007 £'000	2006 £'000
Interest on short term deposits	**5**	4

6. Income tax

(a) Current year tax credit

	2007 £'000	2006 (restated) £'000
Overseas taxation	**(31)**	(16)
Research and development tax credit	**(25)**	–
Deferred tax credit	**(100)**	–
	(156)	(16)

(b) Tax reconciliation

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

	2007 £'000	2006 (restated) £'000
Loss on ordinary activities before tax	**(62)**	(160)
Tax at 19% (2006: 19%)	**(12)**	(30)
Effects of:		
Expenses not deductible for tax purposes	**3**	3
Timing differences	**31**	31
Tax losses	**(22)**	(4)
Deferred taxation credit	**(100)**	–
Research and development tax credit	**(56)**	(16)
Current tax credit for the year	**(156)**	(16)

There are tax losses of approximately £5.0 million (2006: £5.2 million) available for carrying forward against future profits of Group companies.

7. Earnings/(loss) per share

Earnings/(loss) per share is based on the profit/(loss) for the financial year of £94,000 (2006: restated, £144,000 loss), and the weighted average number of ordinary shares in issue during the year of 102,103,470 (2006: 91,936,803). 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 109,651,090 (2006: 91,936,803).

8. Goodwill

Goodwill

	£'000
Cost	
At 1 January 2006 – restated	**1,606**
Addition	**50**
At 1 January 2007 – restated	**1,656**
Exchange rate translation difference for assets held in foreign currency	**15**
At 31 December 2007	**1,671**
Accumulated impairment	
At 1 January 2006 and 1 January 2007 – restated	**–**
Impairment loss	**–**
At 31 December 2007	**–**
Closing carrying value	
At 31 December 2007	**1,671**
At 31 December 2006 – restated	**1,656**
At 31 December 2005 – restated	**1,606**

The goodwill has arisen upon:

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

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

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

On 31 July 2006 the Group acquired the business and assets of the Engineering Solutions business of Proceed Holdings Limited. Goodwill of £50,000 arose from this acquisition in this year. Total consideration is as follows:

Paid in year ended 31 December 2006	£108,000
Paid in the year ended 31 December 2007	£90,000
Contingent Consideration	£250,000
Total Consideration	£448,000

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

The £198,000 paid up to 31 December 2007 has been split £50,000 goodwill and £148,000 other intangible asset (see note 10).

No contingent consideration has been provided in these accounts.

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

9. Other intangible assets

	Contracts and Tools £'000	Development Costs £'000	Total £'000
Cost			
At 1 January 2006 – restated	–	–	–
Addition	148	–	148
At 1 January 2007 – restated	148	–	148
Addition	–	106	106
At 31 December 2007	**148**	**106**	**254**
Accumulated amortisation			
At 1 January 2006 and 1 January 2007 – restated	–	–	–
Amortisation charge for the year	30	–	30
At 31 December 2007	**30**	**–**	**30**
Closing carrying value			
At 31 December 2007	**118**	**106**	**224**
At 31 December 2006 – restated	**148**	**–**	**148**
At 31 December 2005 – restated	**–**	**–**	**–**

Contracts and tools relate to customer contracts and software tool assets acquired from Proceed Holdings Limited in 2006. They are being amortised over their estimated useful life of 5 years, starting in the year ended 31 December 2007.

Development costs relate to the 'Migrate' conversion portal. This product is still in development with completion, and the first sales of this product, expected in 2008. Costs will be amortised over an expected useful life of 3 years, commencing in 2008.

10. Plant and equipment

	Office equipment £'000	Computer equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
At 1 January 2006	100	463	56	619
Additions	1	10	–	11
Disposals	(33)	–	(8)	(41)
At 1 January 2007	68	473	48	589
Additions	4	15	7	26
Disposals	(53)	(284)	–	(337)
At 31 December 2007	**19**	**204**	**55**	**278**
Depreciation				
At 1 January 2006	100	414	41	555
Charge for the year	1	25	12	38
Disposals	(33)	–	(8)	(41)
At 1 January 2007	68	439	45	552
Charge for the year	2	20	9	31
Disposals	(53)	(284)	–	(337)
At 31 December 2007	**17**	**175**	**54**	**246**
Net book value				
At 31 December 2007	**2**	**29**	**1**	**32**
At 31 December 2006	**–**	**34**	**3**	**37**
At 31 December 2005	**–**	**49**	**15**	**64**

11. Deferred tax

Deferred tax assets comprise:

	2007 £'000	2006 £'000
At 1 January 2007	**–**	–
Unused tax losses	**100**	–
At 31 December 2007	**100**	–

At the balance sheet date, the Group has unused tax losses of £5.0m (2006: £5.2m) available for offset against future profits. A deferred tax asset of £0.1m (2006: £nil) has been recognised in respect of such losses. No deferred tax asset has been recognised in respect of the remaining losses due to the unpredictability of future profit streams.

12. Trade and other receivables

	2007 £'000	2006 £'000
Trade receivables	**652**	479
Other receivables	**44**	38
Prepayments	**29**	57
	725	574

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

13. Cash and cash equivalents

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

	2007 £'000	2006 £'000
Cash on hand and balances with banks	**233**	219
Short term deposits	**3**	201
	236	420

The carrying amount of these assets approximates their fair value.

14. Trade and other payables

	2007 £'000	2006 £'000
Trade payables	**105**	125
Accrued expenditure	**129**	117
Deferred income	**466**	356
Other taxation and social security	**65**	49
	765	647

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

15. Long term liabilities – Other payables

	2007 £'000	2006 £'000
Deferred income	**51**	80

16. Share capital

	2007 £'000	2006 £'000
Authorised		
247,943,770 Ordinary shares of 1p each	**2,479**	2,479
452,056,230 Deferred shares of 1p each	**4,521**	4,521
	7,000	7,000
Issued and fully paid for		
104,728,470/100,228,470 Ordinary shares of 1p each	**1,047**	1,002
452,056,230 Deferred shares of 1p each	**4,521**	4,521
	5,568	5,523
Shares to be issued		
4,500,000 Ordinary shares of 1p each	**–**	45

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

During the year, the Company issued 4,500,000 Ordinary Shares for cash at 2p per share.

17. Share based payments

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

Date exercisable	As at 1 January 2007	Granted	Cancelled	**As at 31 December 2007**	Exercise price
Unapproved Scheme:					
– from 14 April 2004 to 14 April 2014	945,770	–	–	**945,770**	2.5p*
– from 14 April 2005 to 14 April 2015	40,000	–	–	**40,000**	3p*
– from 17 March 2005 to 17 March 2015	3,000,000	–	–	**3,000,000**	3p**
– from 16 October 2006 to 16 October 2016	75,000	–	–	**75,000**	2.125p*
– from 25 April 2007 to 25 April 2017	–	640,000	–	**640,000**	2.125p*
EMI Scheme:					
– from 14 April 2004 to 14 April 2014	20,000	–	20,000	**–**	2.5p*
– from 14 April 2004 (no expiry date)	800,000	–	–	**800,000**	2.5p*
– from 17 March 2005 (no expiry date)	1,800,000	–	–	**1,800,000**	3p**
– from 16 October 2006 to 16 October 2016	380,000	380,000	–	**380,000**	2.125p*
– from 25 April 2007 to 25 April 2017	–	100,000	–	**100,000**	2p*

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

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

No shares options were exercised during the year.

No expense was recognised from share based transactions in the year (2006 – £nil).

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

17. Share based payments *continued*

Equity-settled share option plan

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

	2007		2006	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding at 1 January	**7,060,770**	**2.5p**	7,049,020	2.5p
Granted during the year	**1,120,000**	**2.125p**	455,000	2.125p
Forfeited during the year	**–**	**–**	–	–
Exercised during the year	**–**	**–**	–	–
Expired during the year	**(1,370,000)**	**3p**	(443,250)	2.5p
Outstanding at 31 December	**6,810,770**	**2.5p**	7,060,770	2.5p
Exercisable at 31 December	**–**	**–**	–	–

No share options were exercised during the year. The options outstanding at 31 December 2007 had an exercise price between 2p and 3p, and a weighted average remaining contractual life of 7 years.

The inputs into the Black Scholes model are as follows:

	2007	2006
Weighted average share price	**3p**	3p
Weighted average exercise price	**10p**	8p
Expected volatility	**60%**	50%
Expected life	**10 years**	10 years
Risk free rate	**6%**	6%
Expected dividends	nil	nil

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

The Group recognised total expenses of £nil (2006: £nil) relating to equity-settled share-based payment transactions.

18. Statement of changes in equity

	Called up share capital £'000	Shares to be issued £'000	Share premium account £'000	Merger reserve £'000	Retained Earnings £'000	Total £'000
At 1 January 2006 – restated	5,423	–	5,349	658	(9,427)	2,003
Exchange adjustments	–	–	–	–	(32)	(32)
New Shares Issued	100	45	145	–	–	290
Share Issue Costs	–	–	(9)	–	–	(9)
Loss for the financial year	–	–	–	–	(144)	(144)
At 1 January 2007	5,523	45	5,485	658	(9,603)	2,108
Exchange adjustments	–	–	–	–	26	26
New Shares Issued	45	(45)	–	–	–	–
Profit for the financial year	–	–	–	–	94	94
At 31 December 2007	**5,568**	**–**	**5,485**	**658**	**(9,483)**	**2,228**

19. Retirement benefit obligations

The group pension arrangements are operated through a defined contribution scheme. The amount recognised as an expense in the year ended 31 December 2007 is £40,000 (2006: £20,000).

20. Contingent liabilities

On 31 July 2006 the Group acquired the business and assets of the Engineering Solutions business of Proceed Holdings Limited. Goodwill of £50,000 arose from this acquisition in this year. Total consideration is as follows:

Paid in year ended 31 December 2006	£108,000
Paid in the year ended 31 December 2007	£90,000
Contingent Consideration	£250,000

The payment of the contingent consideration is subject to the achievement of performance targets for the two years ended 31 July 2008. No contingent consideration has been provided in these accounts.

21. Commitments under operating leases

At 31 December 2007, the minimum lease payments under non-cancellable operating lease rentals are in aggregate as follows:

	2007 Land and buildings £'000	**2007 Other £'000**	2006 Land and buildings £'000	2006 Other £'000
Leases expiring:				
– within 1 year	**35**	**–**	66	11
– within 1-5 years	**169**	**14**	–	3
– after 5 years	**–**	**–**	–	20

22. Financial Risk Management

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

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

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

Liquidity risk

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

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

Interest rate profile

The Group has no financial assets other than sterling cash deposits of £0.2m (2006: £0.4m) invested at an approximate rate of 2 per cent below Bank of England base rate. Group funds are invested in deposit accounts with the objective of maintaining a balance between accessibility of funds and competitive rates of return.

The Group had no interest bearing borrowings at 31 December 2007 or 2006.

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities as at 31 December 2007 is given in note 16. The Group would normally expect that sufficient cash is generated in the operating cycle to meet cash flows through effective cash management.

Borrowing facilities

The Group had no undrawn committed borrowing facilities at 31 December 2007 or 31 December 2006.

Credit risk exposure

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

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

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

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

22. Financial risk management *continued*

Currency exposure

The Group operates in a number of markets across the world and is exposed to foreign exchange risk arising from various currency exposures in particular, with respect to the US dollar, Canadian dollar and the Euro. The Group is exposed to foreign currency risk arising from recognised assets and liabilities as well as commitments arising from future trading transactions.

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

23. Capital management

The group's objectives when managing capital are:

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

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

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

24. Related party transactions

Transactions with related parties were as follows:

Amount paid to Richard Alsept Limited, a company owned by Richard Alsept (Company Secretary and Chief Financial Officer) in respect of accountancy services was £29,414 (2006: £22,865). The amount owed to Richard Alsept Limited at 31 December 2007 was £2,205 (2006: £1,623).

During the year the following transactions took place between Group companies:

Management fees charged by Stilo International plc to Stilo Corporation, £50,000 (2006: £25,000)

Management fees charged by Stilo Technology to Stilo International plc, £167,000 (2006: £325,000)

At 31 December 2007, the following balances were owed by Group companies:

Owed by Stilo Technology Limited to Stilo International plc, £4,057,000 (2006: £3,768,000)

Owed by Stilo Corporation to Stilo International plc, £88,000 (2006: £430,000)

25. Bank guarantees

There were no bank guarantees given by the Company at 31 December 2007.

26. Subsidiary companies

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

Name of Company	Country of Incorporation	Shareholding	Nature of Business
Stilo Technology Limited[1]	England	100%	Sale of software and services
Stilo Corporation[1]	Canada	100%	Sale of software and services
Stilo SARL[2] [3]	France	100%	Sale of software and services
Stilo Inc[2]	USA	100%	Dormant

(1) Directly owned by Stilo International Plc.
(2) Owned by Stilo Corporation.
(3) Stilo SARL ceased trading on 31 October 2007.

27. Transition to IFRS

Shares in Stilo International plc are quoted on the AIM market of the London Stock Exchange plc. It is therefore required to report its consolidated financial statements in accordance with International Accounting Standards (IFRS) as adopted by the European Union for its accounting periods commencing on or after 1 January 2007. In order to comply with this requirement Stilo International plc has published this Annual Report for the year to 31 December 2007 on the basis of IFRS, including the restatement of the December 2006 comparative information. In doing so it has applied the requirements of IFRS 1 'First time adoption of IFRS'.

This is the first period that the Group has presented its financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. The following disclosures are required in the year of transition. The last financial statements prepared under UK GAAP were for the year ended 31 December 2006 and the date of transition to IFRS is therefore 1 January 2006. The purpose of this section is to advise on the impact of the initial transition balance sheet adjustments and the restatement of the 2006 published full year information.

27. Transition to IFRS *continued*

Reconciliation of consolidated balance sheet at 1 January 2006

	UK GAAP £'000	Effect of transition to IFRS £'000	**Restated IFRS £'000**
Non-current assets			
Goodwill	1,606		**1,606**
Plant and equipment	64		**64**
	1,670		**1,670**
Current assets			
Trade and other receivables	577		**577**
Current tax asset	55		**55**
Cash and cash equivalents	373		**373**
	1,005		**1,005**
Total Assets	2,675		**2,675**
Current Liabilities:			
Trade and other payables	672		**672**
Total Liabilities	672		**672**
Equity Attributable to equity holders of the parent			
Called up share capital	5,423		**5,423**
Share premium account	5,349		**5,349**
Merger reserve	658		**658**
Retained earnings	(9,427)		**(9,427)**
Total equity	2,003		**2,003**
Total equity and liabilities	2,675		**2,675**

At 1 January 2006 there were no differences between UK GAAP and IFRS. Also, there were no differences in the cash flows between UK GAAP and IFRS.

27. Transition to IFRS *continued*

Reconciliation of consolidated balance sheet at 31 December 2006

	UK GAAP £'000	Effect of transition to IFRS £'000	**Restated IFRS £'000**
Non-current assets			
Goodwill	1,363	293	**1,656**
Other intangible assets	148		**148**
Plant and equipment	37		**37**
	1,548	293	**1,841**
Current assets			
Trade and other receivables	557		**557**
Current tax asset	17		**17**
Cash and cash equivalents	420		**420**
	994		**994**
Total Assets	2,542	293	**2,835**
Current Liabilities:			
Trade and other payables	727		**727**
Total Liabilities	727		**727**
Equity attributable to equity holders of the parent			
Called up share capital	5,523		**5,523**
Shares to be issued	45		**45**
Share premium account	5,485		**5,485**
Merger reserve	658		**658**
Retained earnings	(9,896)	293	**(9,603)**
Total equity	1,815	293	**2,108**
Total equity and liabilities	2,542	293	**2,835**

27. Transition to IFRS *continued*

Reconciliation of consolidated income statement for the year ended 31 December 2006

	UK GAAP £'000	Effect of transition to IFRS £'000	**Restated IFRS £'000**
Continuing Operations			
Revenue	2,264		**2,264**
Cost of sales	(157)		**(157)**
Gross profit	2,107		**2,107**
Administrative expenses	(2,102)		**(2,102)**
Exceptional expenses re staff redundancies	(169)		**(169)**
Amortisation of goodwill	(293)	293	**–**
Operating loss	(457)	293	**(164)**
Finance income	4		**4**
Loss before tax	(453)	293	**(160)**
Taxation	16		**16**
Loss for the year on continuing operations	(437)	293	**(144)**

Notes to the reconciliation of equity at 1 January and 31 December 2006

Transitional arrangements (IFRS 1)

The opening fair values of fixed assets have been deemed to be their accounting values as at 1 January 2006, after reviewing for impairment as appropriate.

Goodwill and Business Combinations (IFRS3)

The Group has elected to take the exemption available under IFRS1 not to apply IFRS3 retrospectively to business combinations occurring prior to the date of transition to IFRS. Goodwill arising on such acquisitions has therefore been retained at its UK GAAP carrying value at 1 January 2006, having been satisfactorily tested for impairment at that date.

Under UK GAAP goodwill was amortised over its useful economic life, but under IFRS no amortisation charge has been made. This increases profit in the year to 31 December 2006 by £293,000. Instead, goodwill recognised in the balance sheet will be subject to review for impairment on at least an annual basis, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

PARENT COMPANY ACCOUNTS
BALANCE SHEET

as at 31 December 2007

	Note	2007 £'000	2006 £'000
Fixed assets			
Intangible assets		**–**	–
Tangible assets		**–**	–
Investments	2	**1,596**	1,652
		1,596	1,652
Current assets			
Debtors		**–**	–
Cash at bank and in hand		**–**	163
		–	163
Creditors: amounts falling due within one year		**–**	–
Net current assets		**–**	163
Net assets		**1,596**	1,815
Capital and reserves			
Called up share capital	3	**5,568**	5,523
Shares to be issued	3	**–**	45
Share premium account	3	**5,485**	5,485
Merger reserve	3	**–**	–
Profit and loss account	3	**(9,457)**	(9,238)
Equity shareholders' funds		**1,596**	1,815

PARENT COMPANY ACCOUNTS
CASH FLOW STATEMENT

for the year ended 31 December 2007

	2007		2006	
	£'000	£'000	£'000	£'000
Net cash outflow from operating activities		(117)		(298)
Returns on investments and servicing of finance				
Interest received	4		4	
Net cash inflow from returns on investments and servicing of finance		4		4
Acquisitions and disposals				
Loans to subsidiary companies	(140)		74	
Net cash outflow from acquisitions and disposals		(140)		74
Net cash outflow before management of liquid resources and financing		(253)		(220)
Management of liquid resources				
Decrease in short term deposits		163		29
Financing				
Issue of ordinary share capital	90		200	
Share issue costs	–		(9)	
		90		191
Decrease in cash		–		–

PARENT COMPANY ACCOUNTS
NOTES TO THE ACCOUNTS

for the year ended 31 December 2007

1. Accounting policies

Accounting convention

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

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

Turnover and revenue recognition

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

Investments

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

Deferred taxation

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

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

Foreign currencies

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

Share based payments

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

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

2. Investment in subsidiaries

Company

	Investments in subsidiaries £'000	Loans to subsidiaries £'000	Total £'000
Net book value			
At 1 January 2007	823	829	1,652
Additions/Disposals	–	50	50
Write off on closure of subsidiary	–	(106)	(106)
At 31 December 2007	**823**	**773**	**1,596**

The net book value of investments is stated after impairment write-downs of £2,759,000 (2006: £2,759,000).

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

Name of Company	Country of Incorporation	Shareholding	Nature of Business
Stilo Technology Limited[1]	England	100%	Sale of software and services
Stilo Corporation[1]	Canada	100%	Sale of software and services
Stilo SARL[2] [3]	France	100%	Sale of software and services
Stilo Inc[2]	USA	100%	Dormant

(1) Directly owned by Stilo International Plc.
(2) Owned by Stilo Corporation.
(3) Stilo SARL ceased trading on 31 October 2007.

3. Capital and reserves

	Called up share capital £'000	Shares to be issued £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2006	5,423	–	5,349	(8,769)	2,003
New Shares Issued	100	45	145	–	290
Share Issue Costs	–	–	(9)	–	(9)
Loss for the financial year	–	–	–	(469)	(2,755)
At 1 January 2007	**5,523**	**45**	**5,485**	**(9,238)**	**1,815**
New Shares Issued	45	(45)	–	–	–
Loss for the financial year	–	–	–	(219)	(219)
At 31 December 2007	**5,568**	**–**	**5,485**	**(9,457)**	**1,596**

4. Share based payments

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

5. Related Parties

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

6. Profit attributable to parent company

The loss for the financial year dealt with in the accounts of Stilo International plc was £219,000 (2006: £469,000). As provided for by section 230 of the Companies Act 1985, no profit and loss account is presented in respect of the parent company.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Stilo International plc ("the Company") will be held at the offices of Baker Tilly, 2 Bloomsbury Street, London WC1B 3ST on 22 May 2008 at 11.30 a.m. to transact the following business:

ORDINARY BUSINESS

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

Accounts

Resolution 1: To receive and consider the Company's annual accounts for the year ended 31 December 2007, together with the Directors' report and Auditors report thereon.

Directors

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

Auditors

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

SPECIAL BUSINESS

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

Resolution 4:

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

   (a) provided that this authority (unless previously revoked, varied or renewed) shall expire at the conclusion of the Annual General Meeting of the Company next following the passing of this resolution, and in any event on 31 August 2009; and

   (b) this authority shall be limited to the allotment of relevant securities (as defined by Section 80(2) of the Act) up to an aggregate nominal value of £270,617 (representing approximately 26 per cent of the issued equity share capital of the Company as at the date of the Notice of this meeting).

4.2 for the purpose of sub-paragraph 4.1 above:

   (a) the said authority shall allow and enable the Company to make an offer or agreement before the expiry of that authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement notwithstanding the expiry of such power; and

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

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

(a) shall be limited to:

   (i) the allotment of equity securities in connection with a rights issue or other offering in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to their existing holdings of such shares, subject to such exclusions for other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlement, statutory restrictions or legal or practical problems under or resulting from the applications of the laws of any territory or the requirements of any recognised regulatory body or stock exchange in any territory; and

   (ii) the allotment of equity securities (other than pursuant to sub-paragraph (i) above) of up to an aggregate nominal amount of £104,728 (representing approximately 10 per cent of the issued equity share capital of the Company as at the date of the Notice of this meeting).

(b) shall (unless previously revoked, varied or renewed) expire at the conclusion of the Annual General Meeting of the Company next following the passing of this resolution, and in any event on 31 August 2009.

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

(c) shall be limited to the allotment of up to an aggregate of 5,000,000 ordinary shares of 1p each to Proceed Holdings Limited in connection with the purchase by Stilo Technology Limited of the business and certain assets of Proceed Holdings Limited and Proceed Engineering Solutions Limited; and

(d) shall (unless previously revoked, varied or renewed) expire at the conclusion of the Annual General Meeting of the Company next following the passing of this resolution, and in any event on 31 August 2009.

By order of the Board

Richard Alsept
Company Secretary

3 April 2008

NOTES:

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 the Company specifies that to be entitled to attend and vote at the meeting (and for the purposes of the determination by the Company of the number of votes they may cast), holders of ordinary shares must be entered on the relevant register of securities by 11.30 a.m. on 20 May 2008. Changes to entries on the relevant register of securities after 11.30 a.m. on 20 May 2008 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
2. A member or the duly authorised representative of a corporation entitled to attend and vote at the meeting may appoint one or more proxies to attend and (on a poll) vote instead of him. A proxy need not be a member of the Company.
3. A form of proxy is enclosed. To be effective, it must be deposited together with the power of attorney or authority, if any, under which it is executed (or a duly certified copy of any such power or authority) at the office of the Company's registrars so as to be received not later than 48 hours before the time appointed for holding the annual general meeting. Completion of the proxy does not preclude a member from subsequently attending and voting at the meeting in person if he or she so wishes.
   To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 by 48 hours before the time appointed for holding the annual general meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members, and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001. In any case your proxy form must be received by the company's registrars no later than 48 hours before the time appointed for holding the annual general meeting.
4. Copies of the following documents are available for inspection at the registered office of the Company during normal business hours (Saturdays and public holidays excepted) from the date of this notice until the conclusion of the AGM, and are also available for inspection at the place of the AGM from 15 minutes before the start of the AGM until conclusion of the AGM:
   (a) the register of interests of the directors and their families in the share capital of the Company; and
   (b) contracts of service of directors with the Company or with any of its subsidiary undertakings.

Explanatory notes to the resolutions

Ordinary Business

Resolution 1: To receive and adopt the Company's annual accounts.
The directors present the accounts and the reports of the directors and auditors for the year ended 31 December 2007.

Resolution 2: Re-election of directors
Pursuant to the Company's articles of association, one-third of the directors who are subject to retirement by rotation, or if their number is not three or a multiple of three, then the number nearest to but not exceeding one third shall retire from office. However, section 1 of the Combined Code on Corporate Governance and Code of Best Practice (the "Combined Code") requires all directors to submit themselves for re-election at least every 3 years. As an AIM listed company, the provision of the Combined Code are not strictly binding on the Company but are considered to be best practice and therefore Leslie Burnham, having last been re-elected on 18 May 2005 is retiring and offering himself for re-election.

Resolution 3: Re-appointment and remuneration of auditors
It is proposed that Baker Tilly UK Audit LLP be re-appointed as auditors to the Company and that the directors be authorised to determine their remuneration.

Resolution 4: Authority to allot shares
Although the Company's articles of association provide that all the unissued shares shall be at the disposal of the directors, section 80 of the Companies Act 1985 requires that the authority of the directors to allot relevant securities shall be subject to the approval of the shareholders in general meeting. Accordingly, shareholders are being asked to renew, until the conclusion of the next annual general meeting or, in any event, 31 August 2009, whichever is the earlier, the directors' authorisation to allot the Company's unissued shares up to a nominal amount of £270,617 (which represents 27,061,700 ordinary shares and, as at 1 April 2008, 26 per cent of the issued ordinary share capital of the Company. The directors have no present intention of allotting shares pursuant to this authority.

Resolutions 5 and 6: Disapplication of pre-emption rights
Section 89 of the Companies Act 1985 contains pre-emption rules by which, unless the shareholders determine otherwise by special resolution, ordinary shares to be issued for cash must be offered to shareholders in proportion to their existing holdings. In practice, it is desirable to modify these pre-emption rules to a limited extent, for example so as to allow rights issues to existing shareholders in the conventional form (rather than the form which would be required by the Companies Act) and to avoid infringement of overseas securities laws where some shareholders are resident overseas. It is proposed to renew the directors' power under the Company's articles of association to allot equity securities otherwise than in accordance with these pre-emption rules for a period to expire on the date of the next annual general meeting or 31 August 2008, whichever is the earlier, provided that any equity securities allotted for cash pursuant to such a power be limited to a nominal amount of £104,728 (which represents 10,472,847 ordinary shares and, as at 1 April 2008, 10 per cent of the issued ordinary share capital of the Company).

In July 2006, the Company purchased the business and certain assets of Proceed Holdings Limited and Proceed Engineering Solutions Limited. The third part of the consideration for that purchase (which is dependent upon certain performance criteria) is the issue of up to 5,000,000 ordinary 1p shares to Proceed Holdings Limited in August 2008. The Directors seek approval under Resolution 6 for the potential issue of these shares, should the performance criteria be met.

stilo
international plc

FORM OF PROXY

FOR USE AT THE ANNUAL GENERAL MEETING OF STILO INTERNATIONAL plc ON 22 MAY, 2008

I/We ____

of ____

(Please complete in block capitals)

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

____

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at the offices of Baker Tilley, 2 Bloomsbury Street, London WC1B 3ST on Thursday, 22 May 2008 at 11.30 a.m. and any 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**
1. To receive and adopt the Directors' Report and Accounts for the year ended 31 December 2007.		
2. To re-appoint Leslie Burnham as a Director.		
3. To re-appoint Baker Tilly UK Audit LLP as Auditors to the Company and to authorise the Directors to fix their remuneration.		
Ordinary Resolution		
4. To authorise the Directors to allot relevant securities.		
Special Business		
5. To authorise the Directors to allot equity securities and to disapply statutory pre-emption rights in relation to the issue of equity securities.		
6. To authorise the Directors to allot up to 5,000,000 ordinary shares of 1p each to Proceed Holdings Limited.		

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

Signature ____

Dated ____ 2008

Notes:

1. To be effective this form of proxy (together with the power of attorney (if any) under which it is signed (or a notarially certified copy of that power of attorney), must be lodged with the Company's Registrars, Capita Registrars (Proxies), PO Box 25, Beckenham, Kent BR3 4BR not less than 48 hours before the time appointed for the holding of the Annual General Meeting or any adjournment of the Meeting.
2. Any alteration to this form should be initialled.
3. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, you should complete in block capitals his or her full name and address in the space provided and delete the words "the Chairman of the Meeting or" and initial these amendments. Such proxy need not be a member of the Company.
4. In the case of joint holders, the signature of any holder will be sufficient but the names of the joint holders should be stated. If more than one joint holder votes in person or by proxy, the vote of the senior holder who tenders a vote whether by proxy or in person shall be accepted to the exclusion of the votes of the other joint holders, seniority being determined by the order in which their names stand in the register of members.
5. In the case of a corporation, the proxy must be the common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation as a deed.
6. Completion of the form of proxy will not preclude a member from attending and voting in person at the Meeting if the member so wishes.
7. Every holder of ordinary shares present in person and entitled to vote shall have one vote on a show of hands and every holder of ordinary shares present in person or by proxy shall on a poll be entitled to one vote for every ordinary share held.
8. A member entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and vote on his behalf and a proxy need not be a member of the Company. If a member appoints more than one proxy the form of proxy must specify the number of ordinary shares in respect of which the proxy is entitled to vote and no member is permitted to appoint more than one proxy (save in the alternate) to vote in respect of any one ordinary share held by the member.
9. Any alteration to the form of proxy must be initialled.
10. Shares held in uncertified form (i.e. in CREST) may be voted through the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual.

Third Fold and Tuck in

BUSINESS REPLY SERVICE
Licence No. MB 122

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Capita Registrars (Proxies)
PO Box 25
Beckenham
Kent
BR3 4BR

First Fold

Second Fold

stilo
international plc

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Whitehill Way, Swindon SN5 6QR

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