

ANNUAL REPORT 2012



Financial year ending 31 December 2012

Stilo specialises in helping organisations to automate the conversion of their content into different XML standards.

Our solutions are used by commercial publishers, technology companies and government organisations that need to convert existing document formats into new digital standards for publishing content to the web, CD-ROM and an ever increasing range of mobile devices.



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CHAIRMAN'S STATEMENT

The Company has made good progress in 2012. While our sales revenues decreased overall, our profits increased as we focused the business on XML content conversion technology and associated services. Sales of Migrate, our cloud content conversion service, accelerated significantly, with many prestigious new customers.

OmniMark version 10 was released in February 2012, and the capabilities of Migrate have been further enhanced with the release of a new RoboHelp to DITA XML document conversion service in May 2012.

With an expert development team, a global customer base, growing adoption of Migrate and a strong cash position, we look forward to making further progress in 2013.

David Ashman

Chairman

12 March 2013

FINANCIAL HIGHLIGHTS 2012

- **Profit after taxation increased to £118,000**
(2011: £105,000)
- **Sales revenues reduced to £1,409,000 reflecting curtailment of SAP-related activities**
(2011: £1,735,000)
- **Increase in sales of Stilo Migrate to £355,000**
(2011: £83,000)
- **Annual software maintenance revenues of £735,000**
(2011: £771,000)
- **Operating expenses reduced by 16% to £1,270,000**
(2011: £1,508,000)
- **Continued investment in product development of £368,000**
(2011: £377,000)
- **Cash position continues to strengthen to £976,000 as at 31 December 2012**
(2011: 939,000)

BUSINESS HIGHLIGHTS 2012

- Encouraging growth in orders received for Stilo Migrate, the cloud XML content conversion service, from customers including IBM, EMC Corp, Cisco Systems, Micron Technology, Varian Medical Systems, Cassidian Communications and ACME Packet
- Migrate functionality enhanced with a RoboHelp to DITA XML conversion capability
- Migrate recommended by central IBM Information Development tools group to over 400 globally dispersed documentation teams
- Migrate deployed by IBM Retail Store Solutions and IBM z/OS mainframe team in USA
- EMC Corp implemented Migrate conversion portals across five business divisions in USA
- Migrate used extensively by Cisco Systems documentation teams in India and Israel
- OmniMark version 10 released, addressing high-performance XML/SGML content processing requirements of major organisations
- Significant OmniMark orders received for deployment at the Japan Patent Office in Tokyo
- Major OmniMark orders received from Embraer in Brazil to process aircraft technical documentation

BUSINESS REVIEW

Large organisations need to process ever increasing amounts of digital content and publish information to multiple media channels including print, web, CD-ROM, smartphones, ebook readers and mobile devices.

They often need to author and publish content in multiple languages, and re-use that content in many different ways, across different publications and document types. Innovative web applications dynamically assemble and deliver content to users that is tailored to their individual purchasing requirements, reading preferences or personal interests.

The content management systems that support such digital publishing applications typically necessitate that content is stored and processed in a 'neutral' XML (Extensible Markup Language) format prior to publication.

Stilo specialises in helping organisations automate the conversion of their existing content into different XML formats. Our solutions are used by commercial publishers, technology companies and government agencies and include organisations involved in the production and maintenance of technical documentation.

The business opportunity for XML content conversion technology and services is global and growing, and it is Stilo's objective to dominate this market sector.

TECHNOLOGY AND CUSTOMERS

Stilo's core technology is **OmniMark**, a leading content processing platform used by customers to rapidly develop high-performance, SGML/XML content conversion solutions that integrate with complex publishing applications. Users include Boeing, Thomson Publishing, Wolters Kluwer, Embraer and the Japan Patent Office. It is a mature, well-proven technology with an excellent reputation amongst users for robustness and reliability. OmniMark version 10 was released in February 2012.

In recent years there has been a trend for organisations to outsource their content conversion requirements to third-party specialists, often based in offshore locations. Although this approach can work successfully, we recognised an opportunity to further improve turnaround times and reduce the costs of conversion projects through improved automation.

This gave rise to the development of **Migrate**, the world's first cloud content conversion service, based upon OmniMark technology. Non-technical users of Migrate are able to upload source documents to a dedicated portal, and convert them in real time to the target XML format. The service operates on a pay-as-you-use basis, and can be quickly deployed for conversion projects of all sizes.

BUSINESS REVIEW *continued*

There was strong growth of Migrate sales in 2012 to customers including IBM, Cisco Systems, EMC Corp, Micron Technology, Varian Medical Systems, ACME Packet and Cassidian Communications.

Migrate customer highlights include:

- Migrate recommended by central IBM Corporate User Technologies group to over 400 globally dispersed documentation teams
- Migrate deployed by IBM Retail Store Solutions and IBM z/OS mainframe team in USA
- EMC Corp implemented Migrate conversion portals across five business divisions in USA
- Migrate used extensively by Cisco Systems documentation teams in India and Israel

Sales to new customers are being driven by their adoption of the DITA XML authoring and publishing standard, which originated in the high-tech industry, but is now gaining popularity in other market sectors. Our development and marketing activities retain a very strong focus in the DITA XML market, and through partnering programmes we will seek to address additional business opportunities in market sectors that adopt different XML standards.

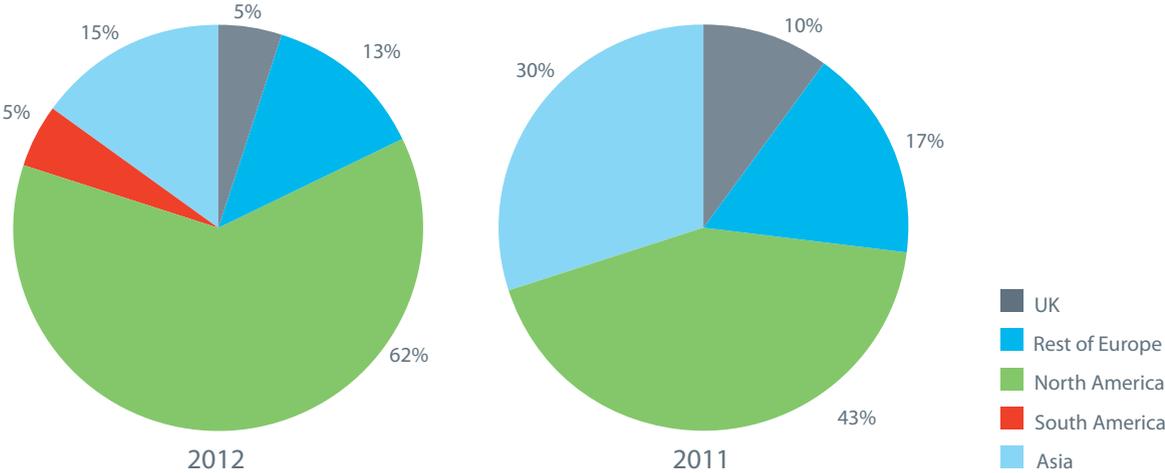
Our technical team includes leading experts in the development of content conversion tools, and by association, the solving of complex SGML/XML content processing problems. Services engagements previously undertaken on behalf of clients in the airline sector have led to the development of JETView, a digital publishing solution for aircraft technical documentation. It is used by cargo airline ABX Air, Inc. to aggregate and update information periodically provided by aircraft OEMs, and publish that information digitally for use by maintenance engineers.

Sales of Migrate accelerated significantly in 2012.

BUSINESS REVIEW *continued*

Our customers typically comprise large organisations, and are spread globally.

Geographic sales revenues were derived as follows:



North American revenues grew significantly as an overall percentage in 2012, as adoption of the DITA XML standard has been primarily led by corporations with their headquarters based in the USA. It is anticipated that adoption of the DITA XML standard will spread internationally over the coming years.

OPERATIONS

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

As of 31 December 2012, there were 14 permanent employees in the Company, complemented by the use of contractors. In 2013 we will be making additional investments in the recruitment of development personnel, but it is not anticipated that we will be growing headcount significantly, as we look to contain our costs and scale the business through technology sales and partnering agreements.

FINANCIAL RESULTS

The results for the year ended 31 December 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

In 2012, the results for Stilo show a profit, after taxation, of £118,000 (2011: £105,000). There was an improved operating profit result achieved from continuing operations of £54,000 (2011: break-even).

Total sales revenues for the period decreased to £1,409,000 (2011: £1,735,000). This was as a result of the continued reduction in revenue from consulting services. Revenue from sales of Stilo Migrate increased to £355,000 (2011: £83,000). Total OmniMark software and maintenance sales were £975,000 (2011: £1,403,000).

The Company continued to benefit from revenue from software maintenance contracts of £735,000 (2011: £771,000). The increase in the sales of Stilo Migrate and the continued change in the mix of types of revenue towards technology sales meant that the company was able to achieve an improved profitable result despite the fall in turnover.

Operating expenses decreased by 16% in the year to £1,270,000 (2011: £1,508,000).

The decrease in overall operating costs was primarily due to anticipated cost reductions in the Solutions for SAP Division, following the curtailment of SAP-related services in 2011.

Investment in research and development continued in 2012, with research and development expenditure for the year of £368,000 (2011: £377,000). As a result of this investment, Stilo continues to benefit from research and development tax credits.

Stilo had a cash balance of £976,000 as at 31 December 2012 (31 December 2011: £939,000), and remains entirely un-gearred. This further strengthening of the balance sheet provides a stable financial base for the Company and will support continued investment in product development, sales and marketing. However, overall costs will continue to be carefully managed in order to maintain cash reserves at a satisfactory level.

DIRECTORS' REPORT

The Directors present their report together with the audited accounts of the Group and the Company for the year ended 31 December 2012.

PRINCIPAL ACTIVITY

The principal activity of the Group is the provision of specialist software tools and cloud services to customers across a broad range of industry sectors. The principal activity of the Company is that of a holding company.

BUSINESS REVIEW, RISK AND KEY PERFORMANCE INDICATORS

A detailed review of activities and developments in the Group is contained in the Chairman's Statement and Business Review on pages 2 to 6.

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

Sales performance, including monitoring current and forecast sales against plans and review of sales pipeline. Sales performance is reviewed by product. A detailed geographical split of turnover is contained in Note 2 on page 31. Commentary on the financial performance of the Company is given in the Chairman's Statement and Business Review.

Receivables, including ageing, debtor day trends and cash collection. Further information about receivables is given in Note 13 on page 37. Debtor days at 31 December 2012 were 46 days (2011: 40 days). Whilst outside of contractual credit terms, the directors consider this to be reasonable. Overdue amounts are closely monitored.

Human resources KPI's, employee numbers, including added value, professional staff utilisation rates and health and safety monitors together with annual appraisals. Staff information is included in Note 3 on pages 31 and 32. Employees remain committed to the Group.

Costs and overheads, including monitoring variable costs such as sub-contractors, reviewing costs against plan, and forecasting short-term expected variations in overheads. Costs are regularly reviewed in order to maximise efficiency.

Development targets and deadlines are closely monitored and product development is progressing broadly on schedule.

FINANCIAL RISK MANAGEMENT AND EXPOSURE

Financial risk management and exposure are considered further in Note 23 on pages 42 and 43.

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

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

DIRECTORS' REPORT *continued*

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

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

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

RESULTS AND DIVIDENDS

The Group profit for the year after taxation was £118,000 (2011: profit of £105,000). The Directors do not recommend the payment of a dividend (2011: £nil). The directors consider that the going concern basis is still appropriate, supported by the increase in cash balances and the financial statements are prepared on the going concern basis. Further information is given in Note 1 on pages 24 to 30.

FUTURE DEVELOPMENTS

The business outlook is considered in the Chairman's Statement and Business Review on pages 2 to 6.

DIRECTORS AND THEIR INTERESTS

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

SUBSTANTIAL SHAREHOLDINGS

At 6 March 2013 the Company had been notified of the following shareholding, other than Directors, who are interested directly or indirectly in three per cent or more of the issued share capital of the Company.

	Number of ordinary shares held	Percentage of issued ordinary share capital
Giltspur Nominees Limited	7,638,000	6.96%
Brewin Nominees Limited	26,192,925	23.85%
HSDL Nominees Limited	5,626,362	5.12%
Mossland Limited	4,100,000	3.73%
S J Buswell	4,084,416	3.72%
E R Pike	3,984,416	3.63%
S C Healey	3,384,416	3.08%

DIRECTORS' RESPONSIBILITIES

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

DIRECTORS' REPORT *continued*

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

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

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

In preparing each of the Group and Company financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether they have been prepared in accordance with IFRSs adopted by the EU;
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

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

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

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year the Group made donations of £nil (2011: £1,000) to local charities. The Group made no political donations (2011: £nil).

RESEARCH AND DEVELOPMENT

Research and development expenditure for the year, excluding costs capitalised, was £368,000 (2011: £377,000). Further information relating to research and development is contained in the Chairman's Statement and Business Review on pages 2 to 6.

DIRECTORS' REPORT *continued*

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 2012 the Group's trade payables represented 18 days' purchases (2011: 22 days).

EMPLOYEES

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

ENVIRONMENT

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

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

AUDITOR

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

Approved by the Directors and signed by order of the Board

Richard Alsept
Company Secretary

12 March 2013

REMUNERATION REPORT

MEMBERSHIP

Remuneration policy is set by the Chairman David Ashman with assistance from the Company Secretary.

POLICY STATEMENT

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

SERVICE CONTRACTS

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

DIRECTORS' INTERESTS

The interests of the Directors at 31 December 2012 in the shares of the Company were as follows:

	31 December 2012 Number of Ordinary Shares	1 January 2012 Number of Ordinary Shares
Executive		
L Burnham	5,000,000	5,000,000
Non-executive		
D Ashman	11,400,000	10,900,000

SHARE OPTION SCHEME

At 31 December 2012 the following share options were held by Directors:

	1 January 2012	Number Granted in the year	Number Cancelled in the year	31 December 2012	Exercise price	Date from which exercisable	Expiry Date
L Burnham	2,600,000	–	–	2,600,000	1.5p	24 December 2008	No expiry
R Alsept	700,000	–	–	700,000	2.25p	20 April 2013	20 April 2021

The market price of the Company's shares at the end of the financial year was 4.75p and the range of the market prices during the year ended 31 December 2012 was between 3p and 5p.

NON-EXECUTIVE DIRECTORS

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

David Ashman
Chairman

12 March 2013

DIRECTORS AND OFFICERS

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

DIRECTORS

David Ashman – *Non-Executive Director and Chairman*

David held various accounting positions at Unilever, Reed International, Letraset, Borg Textiles and Marley before joining Bowater Paper Group where he became Finance Director. It was there that he was a key member of the management team which carried out an MBO from Bowaters, subsequently floating the company on the London Stock Exchange and accepting a bid two years later valuing the Company at £300 million.

Leslie Burnham – *Director and Chief Executive Officer*

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

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

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

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 and forming his own accountancy practice specialising in accounting, taxation and financial direction. Through his practice, he became involved with Stilo as Chief Financial Officer and subsequently also became Company Secretary in 2003. Having sold his practice in 2008, Richard took time to pursue other personal interests, prior to rejoining Stilo in 2010.

ADVISERS

REGISTERED OFFICE

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

REGISTERED NUMBER

03893693

PRINCIPAL BANKERS

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INDEPENDENT AUDITOR

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BS1 6AD

SOLICITORS

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Bristol
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NOMINATED ADVISER

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London
EC1A 3NT

BROKER

Charles Stanley Securities
131 Finsbury Pavement
London
EC1A 3NT

REGISTRAR

Capita IRG plc
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34 Beckenham Road
Beckenham
Kent
BR3 4TU

CORPORATE GOVERNANCE

COMPLIANCE

As the Company is listed on AIM, it is not required to comply with the provisions set out in the 2010 FRC UK Corporate Governance Code. 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 two executive Directors, who hold key operational positions in the Company, and one non-executive Director who brings a breadth of experience and knowledge. The current Board members are described on page 13.

The 2010 FRC UK Corporate Governance 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 one non-executive Director is 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 Director. The non-executive Director meets with the auditors on a formal basis once a year and whenever it is considered appropriate. The non-executive Director 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 non-executive Director monitors the level of non-audit work undertaken by the auditor prior to the annual audit.

INTERNAL CONTROLS

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

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

GOING CONCERN

After making appropriate enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group accounts. Further information is given in Note 1 on pages 24 to 30.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF STILO INTERNATIONAL PLC

We have audited the group and parent company financial statements ("the financial statements") on pages 17 to 45. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As more fully explained in the Directors' Responsibilities Statement set out on pages 9 and 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

OPINION ON THE FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

HEATHER WHEELHOUSE (*Senior Statutory Auditor*)

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

Chartered Accountants

Hartwell House, 55-61 Victoria Street, Bristol BS1 6AD

12 March 2013

GROUP INCOME STATEMENT

for the year ended 31 December 2012

	<i>Note</i>	2012 £'000	2011 £'000
Revenue – continuing operations	2	1,409	1,735
Cost of sales		(35)	(156)
Gross profit		1,374	1,579
Operating expenses		(1,270)	(1,508)
Amortisation of intangible assets		(48)	(73)
Other (losses)/gains	5	(2)	2
Operating profit	4	54	–
Finance Income	6	6	2
Profit before tax		60	2
Income tax	7	58	103
Profit for the year attributable to the equity shareholders of the parent company		118	105
Earnings per share – basic	8	0.11p	0.10p
Earnings per share – diluted	8	0.10p	0.09p

The notes on pages 24 to 45 form an integral part of these consolidated financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	2012 £'000	2011 £'000
Profit for the year	118	105
Other comprehensive income		
Foreign currency translation differences	(30)	(17)
Other comprehensive income for the year, net of tax	(30)	(17)
Total comprehensive income for the year	88	88

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

GROUP AND PARENT COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2012

	Note	Group		Company	
		2012 £'000	2011 £'000	2012 £'000	2011 £'000
Non-current assets					
Goodwill	9	1,688	1,690	–	–
Other intangible assets	10	60	94	–	–
Investments	27	–	–	1,361	1,361
Plant and equipment	11	16	16	–	–
Deferred tax asset	12	50	50	–	–
		1,814	1,850	1,361	1,361
Current assets					
Trade and other receivables	13	212	204	–	–
Income tax asset		55	53	–	–
Other financial asset	14	–	2	–	–
Cash and cash equivalents	15	976	939	–	–
		1,243	1,198	–	–
Total assets		3,057	3,048	1,361	1,361
Current liabilities					
Trade and other payables	16	327	386	–	–
Non-current liabilities					
Other payables	17	4	25	–	–
Total liabilities		331	411	–	–
Equity attributable to equity shareholders of the parent Company					
Called up share capital	18	5,619	5,619	5,619	5,619
Share premium account		5,524	5,524	5,524	5,524
Merger reserve		658	658	–	–
Retained earnings		(9,075)	(9,164)	(9,782)	(9,782)
Total equity		2,726	2,637	1,361	1,361
Total equity and liabilities		3,057	3,048	1,361	1,361

The notes on pages 24 to 45 form an integral part of these consolidated financial statements.

These accounts were approved by the Board of Directors and authorised for issue on 12 March 2013 and signed on its behalf by:

Les Burnham
Chief Executive Officer

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2011	5,618	5,524	658	(9,257)	2,543
Comprehensive income					
Profit for the financial year	–	–	–	105	105
Other comprehensive income					
Exchange adjustments	–	–	–	(17)	(17)
Total comprehensive income	–	–	–	88	88
Transactions with owners					
Share-based transactions	1	–	–	5	6
Total transactions with owners	–	–	–	5	6
Balance at 1 January 2012	5,619	5,524	658	(9,164)	2,637
Comprehensive income					
Profit for the financial year	–	–	–	118	118
Other comprehensive income					
Exchange adjustments	–	–	–	(30)	(30)
Total comprehensive income	–	–	–	88	88
Transactions with owners					
Share-based transactions	–	–	–	1	1
Total transactions with owners	–	–	–	1	1
At 31 December 2012	5,619	5,524	658	(9,075)	2,726

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

	Called up share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
At 1 January 2011	5,618	5,524	(9,607)	1,535
Comprehensive income				
Loss for the financial year	–	–	(175)	(175)
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	(175)	(175)
Transactions with owners				
Share-based transactions	1	–	–	1
Total transaction with owners	1	–	–	1
At 1 January 2012	5,619	5,524	(9,782)	1,361
Comprehensive income				
Loss for the financial year	–	–	(1)	(1)
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	(1)	(1)
Transactions with owners				
Share-based transactions	–	–	1	1
Total transactions with owners	–	–	1	1
At 31 December 2012	5,619	5,524	(9,782)	1,361

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

	Note	2012		2011	
		£'000	£'000	£'000	£'000
Cash flows from operating activities					
Profit before taxation		60		2	
Adjustment for depreciation and amortisation		58		87	
Adjustment for investment income		(6)		(2)	
Adjustment for foreign exchange differences		(28)		(18)	
Adjustment for financial derivatives		2		2	
Adjustment for share-based payments		1		5	
Operating cash flows before movements in working capital					
		87		76	
Decrease/(increase) in trade and other receivables		(8)		494	
(Decrease)/increase in trade and other payables		(80)		(152)	
Cash generated from operations			(1)		418
Tax credit received			56		33
Net cash generated from operating activities			55		451
Cash flows from investing activities					
Finance income			6		2
Sale of equipment			–		1
Development costs capitalised			(14)		–
Purchase of equipment			(10)		(10)
Net cash used in investing activities			(18)		(7)
Financing activities					
Issue of ordinary share capital			–		1
Share issue costs			–		–
Net cash from financing activities			–		1
Net increase in cash and cash equivalents			37		445
Cash and cash equivalents at beginning of year			939		494
Cash and cash equivalents at end of year	15		976		939

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

PARENT COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

	2012		2011	
	£'000	£'000	£'000	£'000
Net cash outflow from operating activities		–		(175)
Acquisitions and disposals				
Loans from subsidiary companies	–		171	
Net cash inflow from acquisitions and disposals		–		171
Net cash (outflow)/inflow before management of liquid resources and financing		–		(4)
Financing activities				
Issue of ordinary share capital		–		1
Share issue costs		–		–
Net cash from financing activities		–		1
(Decrease)/increase in cash and cash equivalents		–		(3)
Cash and cash equivalents at beginning of year		–		3
Cash and cash equivalents at end of year		–		–

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

NOTES TO THE ACCOUNTS

for the year ended 31 December 2012

1 ACCOUNTING POLICIES

(a) Basis of Preparation

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

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and International Financial Reporting Committee ("IFRC") interpretations that are applicable to the consolidated financial statements for the year ending 31 December 2011, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared in Sterling, which is the Group's presentation currency.

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

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

The directors consider that the going concern basis is still appropriate, supported by the continued improvement in cash balances. The cost base has been significantly reduced and cash flow forecasts indicate that the company will be able to meet future financing needs from future cash flows generated. Cash flow forecasts assume a modest sales growth and improved profitability. In order to conclude whether the going concern basis is appropriate for the preparation of the financial statements, management have prepared forecasts based on a flat level of trading for the current year and assuming that the historical payment profile of receivables and payables remains consistent with that experienced in recent years. They have also assumed that there are no significant changes in staffing levels. These forecasts show that the Company has adequate level of cash reserves to meet its operating liabilities as and when they fall due from existing sources. A 50% reduction in revenue levels (without any adjustment in the cost base in the business) would be required before the company would need to consider alternative sources of funding. Given that this kind of drop-off in revenues is considered by management to be highly unlikely to occur and they would be able to take compensating actions with regard to the Company's cost base, management have concluded that the current forecasts have adequate headroom to be able to conclude that the going concern basis remains appropriate.

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

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:

IAS 8 requires information to be disclosed in the current period's financial statements with regards to new IFRSs that have been issued but are not yet effective, including any potential impact on future financial statements;

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

The introduction of IFRS 9 Financial Instruments means that the measurement of certain financial assets may change dependent on the entity's business model and the nature of the contractual cash flows. In addition, in advance of the reporting period end, certain designations and de-designations may need to be made. Financial assets with embedded derivatives will also require re-measurement;

The introduction of IFRS 10 means that:

A reassessment of control will need to be considered using the new definition as entities may need to be treated differently in consolidated financial statements;

Consideration of potential voting rights may alter who has control irrespective of whether they are currently exercisable;

The introduction of IFRS 11 means that joint ventures, joint arrangements and joint operations will need revisiting. Those accounted for using proportional consolidation may need to be presented using the equity method of accounting. Joint operators will need to bring in their share of assets, liabilities, revenue, expenses etc of joint operations, which have been re-defined by IFRS 11;

The introduction of IFRS 12 means that the risks associated with non consolidated entities will need extensive disclosures; and

External valuations obtained and instructions to external experts requesting valuations for accounting purposes will need to be reviewed and considered to ensure that they are based on valuation requirements of IFRS 13.

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.

(b) Basis of consolidation

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

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group before 1 July 2007. 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.

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

(c) Revenue recognition

Revenue represents the fair value of goods and services supplied and is stated net of value added tax. Revenues consist of cloud services, software and software maintenance, and consulting. Consulting services revenue represents the fair value of contracts completed during the period, as well as the estimated fair value of partially completed contracts at 31 December 2012. Revenue from software sales and cloud services is recognised upon shipment. Revenue from software maintenance is deferred and then recognised over the period to which it relates.

(d) Goodwill

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

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

(e) Foreign currency translation

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

(f) Intangible assets other than goodwill

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

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

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

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

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

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

Development expenditure thus capitalised is amortised over its useful life of 3-5 years. Where the criteria are not met, development expenditure is recognised as an expense in the income statement in the period in which it is incurred.

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

(g) Plant and equipment

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

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

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

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

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

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

(h) Taxes

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

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

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

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

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

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.

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to foreign currency and interest rate risk. The Group uses foreign exchange forward contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes. At 31 December 2012 the Group did not have any open foreign exchange forward contracts.

Instruments quoted in an active market are measured at their current bid price. For instruments that are not quoted in an active market, the fair value is estimated using a valuation technique. Techniques that are used by the Group include comparisons to recent market transactions or reference to other instruments which are substantially the same, discounted cash flow analysis and option pricing models. Inputs to such techniques rely on market inputs where such information is readily available. Where such information is not available entity-specific inputs are used.

Derivative financial instruments

All derivative financial instruments are initially and subsequently recognised in the Statement of Financial Position at fair value.

Changes in the fair value of derivatives used to hedge exposures to variable cash flows or changes in fair value that are not accounted for in accordance with the hedging provisions of IAS 39 are recognised in profit or loss.

Cash flow hedges

Hedges of exposures to variable cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss are accounted for as cash flow hedges when the hedging criteria has been achieved. The Group uses cash flow hedges to account for the hedge of foreign currency transactions and the hedge of variable rate borrowings. The effective portion of changes in the fair value is recognised in other comprehensive income whilst the gain or loss on the ineffective portion is recognised immediately in profit or loss.

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

Amounts accumulated in other comprehensive income are recycled to profit or loss in the periods when the hedged item affects profit or loss. However, when a forecast transaction that is hedged, results in the recognition of a non-financial asset, the gains and losses previously deferred into other comprehensive income are transferred from other comprehensive income and included in the initial measurement of the cost of the asset.

Cash and cash equivalents

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

Financial liabilities and equity

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

(k) Share-based payments

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

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

(l) Retirement benefit

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

(m) Leases

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

(n) Provisions

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

(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) Segmental reporting

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

(q) Trade payables

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

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

(r) Investments

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

(s) Earnings per share

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

Critical accounting estimates and areas of judgement

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

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

Critical judgements in applying the group's accounting policies

During the period the directors considered that £14,000 (2011: £nil) of development costs met the criteria for recognition as intangible assets as defined in IAS 38. The recognition criteria on which this judgement was made are given in more detail in the Intangible Assets accounting policy. The capitalised development costs are being amortised over a period which is considered by management to be the minimum economic useful life of the asset.

The directors have considered the potential recognition of a deferred tax asset with regard to the requirements of IAS 12, and due to the continued profitability of the Group, have continued to recognise a deferred tax asset in the amount of £50,000 (2011: £50,000) in respect of unused tax losses. Details of the policy adopted in respect of income taxes are disclosed in more detail in the Taxes accounting policy.

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

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

The fair value of financial derivatives has been estimated using market rates in effect at the end of the year.

The directors consider that the Group maintains one operating segment for the purposes of management reporting and decision making, providing content conversion tools and cloud services to global customers. The curtailment of the Solutions for SAP business has meant that this business segment no longer constitutes a segment which is separately reported to the board of directors in making strategic decisions.

Key sources of estimation uncertainty

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

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

2 REVENUE AND SEGMENTAL ANALYSIS

The Group maintains a single operating segment based upon the reports which the board of directors review and use to make strategic decisions.

Analysis by geographical segment

At 31 December 2012, the Group's operations are located in the UK and in Canada.

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

	Revenue by destination £'000	2012 Non-current Assets £'000	Capital Expenditure £'000	Revenue by destination £'000	2011 Non-current Assets £'000	Capital Expenditure £'000
United Kingdom	71	155	5	179	146	1
Rest of Europe	181	—	—	300	—	—
North America	878	1,659	5	734	1,704	9
South America	64	—	—	—	—	—
Asia	211	—	—	518	—	—
Australasia	4	—	—	4	—	—
	1,409	1,814	10	1,735	1,850	10

Revenues of £194,000 (2011: £498,000) and £174,000 (2011: £98,000) which represent more than 10% of total revenues are derived from individual external customers in North America.

3 STAFF COSTS

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

	2012 £'000	2011 £'000
Wages and salaries	697	852
Social security costs	70	85
Pension contributions	50	23
Share-based payments	1	5
	818	965

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

	2012 £'000	2011 £'000
Research and development	6	5
Sales, marketing and professional services	4	7
Management and administration	5	6
	15	18

The number of persons employed at 31 December 2012 was 14 (2011: 16).

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

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

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

	Les Burnham		Richard Alsept	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Salary and fees	111	149	19	–
Pension contributions	47	14	–	–
Social security costs	14	19	2	–
Other benefits	5	4	–	–
Share-based payments	–	1	–	–
	177	187	21	–

David Ashman receives no emoluments (2011: nil).

One director (2011: one) was accruing a benefit under a defined contribution scheme.

4 OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2012 £'000	2011 £'000
Depreciation of owned property, plant and equipment	10	14
Amortisation of intangible assets	48	73
Operating lease rentals		
– Land and buildings	90	90
– Other	3	4
Research and development	368	377
Auditor's remuneration		
– Audit fees – parent company and consolidation	16	16
– Audit fees – subsidiaries	12	22
– Non audit services – parent company	2	2
Loss/(gain) on fair value of derivative financial instrument	2	(2)
Net foreign exchange losses recognised in the income statement	2	–

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

	2012 £'000	2011 £'000
Baker Tilly UK Audit LLP		
Fees in respect of the parent company's annual accounts and consolidation	16	16
Fees in respect of subsidiary's annual accounts	12	8
Fees in respect of interim report – parent company	2	2
Baker Tilly UK Audit LLP total	30	26
Members of Baker Tilly International Collins Barrow	4	14
Total	34	40

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

5 OTHER (LOSSES)/GAINS

Financial assets at fair value through the income statement
Foreign exchange forward contracts:

	2012 £'000	2011 £'000
Ineffectiveness on cash flow hedges	(2)	2

6 FINANCE INCOME

	2012 £'000	2011 £'000
Interest on short-term deposits	6	2

7 INCOME TAX

(a) Current year tax (credit)

	2012 £'000	2011 £'000
Overseas taxation credit	(55)	(53)
Deferred tax credit	–	(50)
Research and development tax credit received	(3)	–
	(58)	(103)

(b) Tax reconciliation

	2012 £'000	2011 £'000
The tax assessed for the year differs from the small companies' rate in the UK (21%). The differences are explained below:		
Profit on ordinary activities before tax	60	2
Tax at 20% (2011: 21%)	12	–
Effects of:		
Expenses not deductible for tax purposes	12	16
Tax losses (utilised)	(24)	(16)
Deferred taxation credit for asset recognised in the accounts	–	(50)
Research and development tax credit (including overseas)	(58)	(53)
Tax (credit) for the year	(58)	(103)

There are tax losses of approximately £5.2 million (2011: £5.4 million) available for carrying forward against future profits of Group companies.

8 EARNINGS PER SHARE

Earnings per share is based on the profit for the year of £118,000 (2011: profit of £105,000), and the weighted average number of ordinary shares in issue during the year of 109,808,470 (2011: 109,808,470).

The fully diluted earnings per share in 2012 takes account of outstanding options which results in a weighted average number of shares in issue during the year of 117,949,316 (2011: 118,408,470).

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

9 GOODWILL – GROUP

Goodwill

	£'000
Cost	
At 1 January 2011	1,693
Exchange rate translation difference for assets held in foreign currency	(3)
At 1 January 2012	1,690
Exchange rate translation difference for assets held in foreign currency	(2)
At 31 December 2012	1,688
Accumulated impairment	
At 1 January 2011	–
Impairment loss	–
At 1 January 2012	–
Impairment loss	–
At 31 December 2012	–
Closing carrying value	
At 31 December 2012	1,688
At 31 December 2011	1,690
At 31 December 2010	1,693

The goodwill has arisen upon:

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

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

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

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

The recoverable amount of the goodwill has been determined by value in use calculations, using pre-tax cash flow projections based on financial budgets approved by management covering a five year period. Cash flows arising from OmniMark software maintenance are extended beyond the five year period as these revenues are annual, recurring revenues which are expected to continue indefinitely. Cash flows beyond the five year period are extrapolated using a growth rate of between 2% and 5% (2011: 2% – 5%). The growth rate does not exceed the long-term average growth rate for the industry. A discount rate of 10% (2011: 10%) has been assumed. The key assumptions which have been used within the value in use calculations are consistent with the forecasts and budgets used by management and are considered to be prudent.

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

10 OTHER INTANGIBLE ASSETS – GROUP

	Contracts and Tools £'000	Development Costs £'000	Total £'000
Cost			
At 1 January 2011	148	223	371
Additions	–	–	–
At 1 January 2012	148	223	371
Additions	–	14	14
At 31 December 2012	148	237	385
Accumulated amortisation			
At 1 January 2011	120	84	204
Amortisation charge for the year	28	45	73
At 1 January 2012	148	129	277
Amortisation charge for the year	–	48	48
At 31 December 2012	148	177	325
Closing carrying value			
At 31 December 2012	–	60	60
At 31 December 2011	–	94	94
At 31 December 2010	28	139	167

Contracts and tools relate to customer contracts and software tool assets acquired from Proceed Holdings Limited in 2006. They have been fully amortised.

Development costs relate to the 'Migrate' conversion portal. Sales commenced in 2009. Costs are being amortised over the product's expected useful life of 5 years, commencing in 2009. During the year, expenditure totalling £14,000 was considered to have satisfied the criteria to be capitalised as an intangible asset. This related to the development of a new Migrate pipeline. Sales for this pipeline commenced in the year and are expected to continue into 2014. These costs will therefore be amortised over 3 years, starting in the year ended 31 December 2012.

The amortisation charge is included within administrative expenses.

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

11 PLANT AND EQUIPMENT – GROUP

	Office equipment £'000	Computer equipment £'000	Leasehold improve- ments £'000	Total £'000
Cost				
At 1 January 2011	19	185	61	265
Additions	–	10	–	10
Disposals	(4)	(16)	–	(20)
At 1 January 2012	15	179	61	255
Additions	2	7	1	10
Disposals	(3)	(39)	–	(42)
At 31 December 2012	14	147	62	223
Depreciation				
At 1 January 2011	19	166	59	244
Charge for the year	–	12	2	14
Disposals	(4)	(15)	–	(19)
At 1 January 2012	15	163	61	239
Charge for the year	–	10	–	10
Disposals	(3)	(39)	–	(42)
At 31 December 2012	12	134	61	207
Net book value				
At 31 December 2012	2	13	1	16
At 31 December 2011	–	16	–	16
At 31 December 2010	–	19	2	21

The depreciation charge is included within administrative expenses.

12 DEFERRED TAX – GROUP

Deferred tax assets comprise:

	2012 £'000	2011 £'000
At 1 January 2012	50	–
Unused tax losses recognised in the accounts	–	50
At 31 December 2012	50	50

At the balance sheet date, the Group has unused tax losses of approximately £5.2m (2011: £5.4m) available for offset against future profits. A deferred tax asset of £50,000 (2011: £50,000) has been recognised in respect of these available losses, to the extent that the related tax benefit through future taxable profits is probable. No deferred tax asset has been recognised in respect of the remaining losses due to the unpredictability of future profit streams. There are tax losses which expire in 2012 of £nil (2011: £nil).

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

13 TRADE AND OTHER RECEIVABLES – GROUP

	2012 £'000	2011 £'000
Trade receivables	163	125
Other receivables	5	23
Prepayments	36	49
VAT receivable	8	7
	212	204

Standard credit terms for trade receivables are 30 days from invoice date, although certain credit terms are contract-specific. The directors consider that the carrying amount of trade and other receivables approximates their fair value. Gross trade receivables at year end were £163,000 (2011: £125,000). A bad debt reserve of £nil (2011: £nil) is provided against impaired debts. The value of debts which were past due but not impaired at year end was £7,000 (2011: £6,000). This relates to an independent customer for whom there is no history of default. The ageing of these debts is as follows:

	2012 £'000	2011 £'000
Up to 1 month overdue	–	2
1 to 2 months	7	–
More than 2 months	–	4
	7	6

Trade receivables denominated in US dollars at year end were £156,000 (2011: £50,000), trade receivables denominated in Euro's were £nil (2011: £62,000), and trade receivables denominated in Canadian dollars were £7,000 (2011: £nil). There were no trade receivables denominated in sterling.

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

	2012 £'000	2011 £'000
At 1 January	–	8
Provision for receivables impairment	–	–
Receivables written off during the year as uncollectable	–	–
Unused amounts reversed	–	(8)
	–	–

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

14 OTHER FINANCIAL ASSETS: DERIVATIVE FINANCIAL INSTRUMENTS – GROUP

	2012 £'000	2011 £'000
Assets at fair value through profit or loss		
Current financial assets		
Derivatives used for hedging:		
Forward foreign exchange contracts – cash flow hedges	–	2
	–	2

Trading derivatives are classified at full fair value as a current asset as the maturity of the hedged contract is less than 12 months.

Currency derivatives – cash flow hedge

The Group utilises currency derivatives to hedge future transactions and cash flows. The Group is party to a variety of foreign currency forward contracts in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

At the year end, total notional amount of outstanding foreign exchange forward contracts that the Group has committed to are as below:

	2012 £'000	2011 £'000
Canadian Dollars	–	189

Changes in the fair value of non-hedging currency derivatives amounting to £2,000 have been charged to income in the year (2011: £2,000 gain), and are shown as 'other (losses)/gains'. Fair values have been measured at the end of the reporting period using quoted prices.

15 CASH AND CASH EQUIVALENTS

Group

Cash and cash equivalents consist of cash on hand and short-term deposits held with banks. Cash and short-term deposits and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2012 £'000	2011 £'000
Cash on hand and balances with banks	356	443
Short-term deposits	620	496
	976	939

The carrying amount of these assets approximates their fair value.

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

Parent Company

Cash and cash equivalents consist of cash on hand and short-term deposits held with banks. Cash and short-term deposits and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2012 £'000	2011 £'000
Cash on hand and balances with banks	–	–

The carrying amount of these assets approximates their fair value.

16 TRADE AND OTHER PAYABLES – GROUP

	2012 £'000	2011 £'000
Trade payables	26	33
Accrued expenditure	68	55
Deferred income	227	268
Other taxation and social security	6	30
	327	386

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

The average credit period taken at 31 December 2012 was 18 days (2011: 22 days).

Trade payables denominated in a foreign currency at year end were £8,000 (2011: £5,000).

17 NON-CURRENT LIABILITIES – OTHER PAYABLES – GROUP

	2012 £'000	2011 £'000
Deferred income	4	25

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

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

18 SHARE CAPITAL – GROUP AND PARENT

	2012 £'000	2011 £'000
Authorised		
247,943,770 Ordinary shares of 1p each	2,479	2,479
452,056,230 Deferred shares of 1p each	4,521	4,521
	7,000	7,000
Issued and fully paid for		
109,808,470 (2011: 109,808,470) Ordinary shares of 1p each	1,098	1,098
452,056,230 (2011: 452,056,230) Deferred shares of 1p each	4,521	4,521
	5,619	5,619

No shares were issued during the year.

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.

19 SHARE BASED PAYMENTS – GROUP AND PARENT

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

Date exercisable	As at 1 January 2012	Granted	Exercised/ Cancelled	As at 31 December 2012	Exercise price
Unapproved Scheme:					
– from 30 April 2010 to 30 April 2018	524,000	–	(50,000)	474,000	1.5p
– from 23 October 2011 to 23 October 2019	1,400,000	–	(100,000)	1,300,000	1.25p
– from 20 April 2013 to 20 April 2021	2,388,000	–	–	2,388,000	1.25p
EMI Scheme					
– from 24 December 2008 (no expiry date)	2,600,000	–	–	2,600,000	1.5p
– from 23 October 2011 to 23 October 2019	100,000	–	–	100,000	1.25p
– from 20 April 2013 to 20 April 2021	1,250,000	–	–	1,250,000	2.25p
	8,262,000	–	(150,000)	8,112,000	

An expense of £1,000 was recognised from share-based transactions in the year (2011: £5,000).

Details of share options held by Directors can be found in the Remuneration Report on page 12.

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

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 Les Burnham which have no expiry date). Furthermore, options are normally forfeited if the employee leaves the Group before the options vest.

	2012		2011	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at 1 January	8,262,000	1.79p	7,304,000	1.48p
Granted during the year	–	–	4,188,000	2.26p
Forfeited during the year	(150,000)	1.33p	(3,150,000)	1.70p
Exercised during the year	–	–	(80,000)	1.25p
Expired during the year	–	–	–	–
Outstanding at 31 December	8,112,000	1.79p	8,262,000	1.78p
Exercisable at 31 December	4,474,000	1.42p	4,624,000	1.42p

No share options were exercised during the year. The options outstanding at 31 December 2012 had a weighted average exercise price of 1.79p, and a weighted average remaining contractual life of 7 years.

The inputs into the Black-Scholes model are as follows:

	2012	2011
Weighted average share price	1.79p	1.78p
Weighted average exercise price	10p	6p
Expected volatility	42%	65%
Expected life	7 years	8 years
Risk free rate	1%	3%
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 £1,000 (2011: £5,000) relating to equity-settled share-based payment transactions.

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

20 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 2012 is £50,000 (2011: £23,000).

21 CONTINGENT LIABILITIES

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

22 COMMITMENTS UNDER OPERATING LEASES

At 31 December 2012, the minimum lease payments under non-cancellable operating lease rentals are in aggregate as follows:

	2012 Land and buildings £'000	2012 Other £'000	2011 Land and buildings £'000	2011 Other £'000
Payable:				
– within 1 year	88	3	90	3
– within 1-5 years	155	10	246	9
– after 5 years	–	–	–	–
	243	13	336	12

23 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 £0.6m (2011: £0.5m) invested at an approximate rate of 1% above Bank of England base rate. Group funds are invested in deposit accounts with the objective of maintaining a balance between accessibility of funds and competitive rates of return.

The Group had no interest bearing borrowings at 31 December 2012 or 2011.

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

Maturity of financial assets and liabilities

The maturity profile of the Group's financial liabilities as at 31 December 2012 is given in Note 16.

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

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

Borrowing facilities

The Group had no un-drawn committed borrowing facilities at 31 December 2012 or 31 December 2011.

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

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

Foreign currency exposure

The Group operates in a number of markets across the world and is exposed to foreign exchange risk arising from various currency exposures in particular, with respect to the US dollar, Canadian dollar and the Euro. The Group is exposed to foreign currency risk arising from recognised assets and liabilities as well as commitments arising from future trading transactions. Approximately 78% of sales are denominated in US dollars and 10% of sales are in euros. Approximately 60% of costs are in Canadian dollars and 3% of costs are in euros. Details of accounts receivable and accounts payable denominated in foreign currencies are given in Notes 13 and 16. Approximately 18% of the Group's cash is held in US dollars, and 20% in Canadian dollars. As a result of a partial natural hedge between the different currencies, the Group is reasonably protected against currency fluctuations.

The Group is exposed to foreign exchange risk from commercial transactions and recognised assets and liabilities which are denominated in a currency other than the group entities' functional currencies. In particular, the group has significant US dollar transactions which are recorded in a Canadian dollar functional currency. At 31 December 2012 if the US dollar had strengthened/weakened by 10% against the Canadian dollar, post-tax profit would have been £30,000 higher/lower as a result of the foreign exchange gains/losses on translation of US dollar-denominated cash and accounts receivable.

In 2012 the Group has used derivative instruments to hedge against possible risks arising from fluctuations in foreign currency exchange rates. This has been done with the use of forward contracts in order to enable group companies to manage their foreign exchange risk against their functional currency. The use of foreign currency hedging instruments will continue to be reviewed as a means of reducing the effect of exchange rate fluctuations on the Group's results.

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

24 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.

25 RELATED PARTY TRANSACTIONS

Transactions with related parties were as follows:

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

Amount charged by Keyna Consulting Limited, a company owned by Joe Gollner (former Director of Stilo Corporation) in respect of management and consultancy was £nil (2011: £43,075).

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

Management fees charged by Stilo International plc to Stilo Corporation, £200,000 (2011: £100,000).

Management fees charged by Stilo Technology Limited to Stilo International plc, £200,000 (2011: £275,000).

Cost recharge from Stilo Corp to Stilo Technology Limited, £9,000 (2011: £15,000).

At 31 December 2012, the following balances were owed by Group companies:

Owed by Stilo Technology Limited to Stilo International plc, £4,357,000 (2011: £4,357,000) which is included within investments within Stilo International plc after provisions of £3,435,000 (2011: £3,435,000).

Owed by Stilo International plc to Stilo Corporation, £384,000 (2011: £384,000).

Owed by Stilo Technology Limited to Stilo Corp, £29,000 (2011: £15,000).

NOTES TO THE ACCOUNTS *continued*

for the year ended 31 December 2012

26 BANK GUARANTEES

There were no bank guarantees given by the Company at 31 December 2012.

27 INVESTMENT IN SUBSIDIARIES

Parent Company Only

	Investments in subsidiaries £'000	Loans to subsidiaries £'000	Total £'000
Cost or brought forward balance:			
At 1 January 2011 and 1 January 2012	2,442	3,973	6,415
Additions/(disposals)	–	–	–
At 31 December 2012	2,442	3,973	6,415
Provisions:			
At 1 January 2011	1,619	3,435	5,054
Provision in the year	–	–	–
At 1 January 2012	1,619	3,435	5,054
Provision in the year	–	–	–
At 31 December 2012	1,619	3,435	5,054
Net book value:			
At 1 January 2011	823	709	1,532
At 1 January 2012	823	538	1,361
At 31 December 2012	823	538	1,361

The net book value of investments is stated after impairment write-downs and provisions against loans of £5,054,000 (2011: £5,054,000).

The reduction in investments arises as a result of the sums due to subsidiaries at the year end which are added to the provision against investments.

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

Name of Company	Country of Incorporation	Share- holding	Nature of Business
Stilo Technology Limited (1)	England	100%	Sale of software and services
Stilo Corporation (1)	Canada	100%	Sale of software and services
OmniMark Technologies Inc (2)	USA	100%	Dormant

(1) Directly owned by Stilo International Plc

(2) Owned by Stilo Corporation

28 PROFIT/(LOSS) ATTRIBUTABLE TO PARENT COMPANY

The profit/(loss) for the financial year dealt with in the accounts of Stilo International plc was £nil (2011: £175,000 loss). As provided for by section 408 of the Companies Act 2006, no income statement 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, 25 Farringdon Street, London EC4A 4AB on 23 May 2013 at 11.30 am to transact the following business:

ORDINARY BUSINESS

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

Accounts

Resolution 1: To receive and consider the Company’s annual accounts for the year ended 31 December 2012, together with the Directors’ report and Auditors’ report thereon.

Directors

Resolution 2: To re-elect as a Director, Richard Alsept who retires in accordance with Regulation 77 of the Company’s Articles of Association and, being eligible, offers himself for re-election as a Director of the Company. A short biography is provided on page 13 of the Annual Report and Accounts.

Auditors

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

SPECIAL BUSINESS

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

Resolution 4: That the directors of the Company be and they are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the “**2006 Act**”) to exercise all the powers of the Company to allot shares and grant rights to subscribe for, or convert any security into, shares:

- (a) up to an aggregate nominal amount (within the meaning of section 551(3) and (6) of the 2006 Act) of £366,028; and
- (b) comprising equity securities (as defined in section 560 of the 2006 Act) up to an aggregate nominal amount (when added to any allotments made under (a) above) of £732,056 in connection with or pursuant to an offer or invitation by way of a rights issue in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment (and holders of any other class of equity securities entitled to participate therein or, if the directors consider it necessary, as permitted by the rights of those securities), but subject to such exclusions or other arrangements as the directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any regulatory body or stock exchange in any territory.

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

NOTICE OF ANNUAL GENERAL MEETING continued

Resolution 5: That, subject to the passing of resolution 4, the directors of the Company be and they are hereby empowered pursuant to section 570 of the Companies Act 2006 (the “**2006 Act**”) to allot equity securities (as defined in section 560 of the 2006 Act) of the Company for cash pursuant to the authority conferred by resolution 4 as if section 561 of the 2006 Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash:

- (a) in connection with or pursuant to an offer or invitation (but in the case of the authority granted under resolution 4(b), by way of a rights issue only) in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment (and holders of any other class of equity securities entitled to participate therein or if the directors consider it necessary, as permitted by the rights of those securities) but subject to such exclusions or other arrangements as the directors may deem necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any regulatory body or stock exchange in any territory or otherwise howsoever; and
- (b) in the case of the authority granted under resolution 4(a) above, and otherwise than pursuant to paragraph (a) of this resolution, for cash up to an aggregate nominal amount of £109,808 being approximately (and not more than) 10% of the Company’s issued ordinary share capital (excluding treasury shares) as at the date of the Notice of this meeting.

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

By order of the Board

Richard Alsept
Company Secretary

12 March 2013

NOTICE OF ANNUAL GENERAL MEETING continued

NOTES:

- 1 Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact the company secretary, Richard Alsept, or the Company registrars, Capita Registrars.
- 2 To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at the office of the Company's registrars no later than 48 hours before the time appointed for holding the meeting.
- 3 The return of a complete proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 6 below) will not prevent a shareholder attending the meeting and voting in person if he/she wishes to do so.
- 4 To be entitled to attend and vote at the meeting or any adjournment (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company 48 hours (excluding non-working days) before the time appointed for holding the meeting or adjourned meeting. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
- 5 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- 6 In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland's specifications and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
- 7 CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
- 8 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

NOTICE OF ANNUAL GENERAL MEETING continued

- 9 Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
- 10 Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting by no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interest of the company or the good order of the meeting that the question be answered.
- 11 Copies of the following documents are available for inspection at the registered office of the Company during normal business hours (excluding weekends and public holidays) from the date of this notice until the conclusion of the AGM, and will also be available for inspection at the place of the AGM from 15 minutes before it is held until its conclusion:
 - (a) service contracts of the executive directors with the Company or any of its subsidiary undertakings;
 - (b) letters of appointment of the non-executive directors of the Company;
 - (c) the register of interests of the Directors and their families in the share capital of the Company.

NOTICE OF ANNUAL GENERAL MEETING continued

EXPLANATORY NOTES TO THE RESOLUTIONS

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

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

Resolution 5 is proposed as a special resolution. This means that for this resolution to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

ORDINARY BUSINESS

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

The Directors present the accounts and the reports of the Directors and auditors for the year ended 31 December 2012.

Resolution 2: Re-election of Directors

Pursuant to section 77.1 of the Company's articles of association, at each annual general meeting of the company all those directors who have been appointed since the date of the last annual general meeting shall retire. Therefore, Richard Alsept having been appointed as a director on 18 May 2012 is retiring and offering himself for re-election.

Resolution 3: Reappointment and remuneration of auditors

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

Resolution 4: Authority to allot shares

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

Paragraph (a) of resolution 4 will allow the Directors to allot new shares or grant rights up to an aggregate nominal value of £366,028, which is equal to approximately one third of the total issued ordinary share capital of the Company as at the date of this notice (excluding treasury shares). In line with corporate governance guidelines, paragraph (b) will allow the Directors to allot equity securities up to an aggregate nominal amount (when added to allotments under part (a) of this resolution) of £732,056 where the allotment is in connection with a rights issue. These amounts represent approximately one third and two thirds respectively of the total issued ordinary share capital (excluding treasury shares) as at the date of this notice.

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

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

Resolution 5: Disapplication of pre-emption rights

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

This resolution seeks to renew the Directors' power to allot equity securities in certain limited circumstances otherwise than in relation to a pre-emption offer. The power granted at the last AGM is due to expire at this year's AGM. Apart from pre-emption offers, the power is limited to the allotment of equity securities for cash up to an aggregate nominal value of £109,808 (being approximately – but not more than – 10% of the issued ordinary share capital (excluding treasury shares) as at the date of this notice). If given, this power will expire at the conclusion of the 2012 AGM.

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

I/We _____
of _____

(Please complete in block capitals)

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

as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the Annual General Meeting of the company to be held at the offices of Baker Tilly, 25 Farringdon Street, London EC4A 4AB on Thursday, 23 May 2013 at 11.30am and at every adjournment thereof.

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

Please insert an X in the appropriate boxes alongside the resolutions

Ordinary Business	For	Against	Vote Withheld
Ordinary Resolutions			
1 To receive and adopt the Directors' Report and Accounts for the year ended 31 December 2012			
2 To reappoint Richard Alsept as a Director			
3 To reappoint Baker Tilly UK Audit LLP as Auditors to the Company and to authorise the Directors to fix their remuneration			
Special Business			
Ordinary Resolution			
4 To authorise the Directors to allot relevant securities			
Special Resolution			
5 To authorise the Directors to allot equity securities and to disapply statutory pre-emption rights in relation to the issue of certain equity securities			

Names of joint holders (if any) _____

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

Signature _____ Dated _____ 2013

Notes:

- Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company.
- Please indicate with an 'X' in the appropriate boxes how you wish the proxy to vote. The proxy will exercise his discretion as to how he votes or whether he abstains from voting:
 - on any resolution referred to above if no instruction is given in respect of that resolution; and
 - on any business or resolution considered at the meeting other than the resolutions referred to above.
- If you wish to appoint someone other than the chairman of the meeting as your proxy please delete the words 'the Chairman of the Meeting' and insert the name of the person you wish to appoint. A proxy need not be a member of the Company.
- To be valid any proxy form or other instrument appointing a proxy and any power of attorney under which it is executed (or a duly certified copy of any such power of authority), must be received by post or (during normal business hours only) by hand at the office of the Company's registrars (Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU) no later than 48 hours before the time appointed for holding the meeting.
- Where the member is a corporation this form must be under its common seal or signed by an officer, attorney or other person duly authorised by the corporation.
- In the case of joint holders only one need sign this form, but the names of the other joint holders should be shown in the space provided. The vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders. Seniority will be determined by the order in which the names of the holders appear in the register of members in respect of the joint holding.
- The return of a completed proxy form will not prevent a shareholder attending the meeting and voting in person if he/she wishes to do so.
- CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland's specifications and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
- CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
- The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.



Third Fold and Tuck in

BUSINESS REPLY
Licence Number
RSBH-UXKS-LRBC



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