ANNUAL REPORT 2014

Financial year ending 31 December 2014

stilo
international plc

Stilo develops tools to help organisations automate the conversion of legacy content to XML, author new content in XML format, and build XML content processing components integral to enterprise-level publishing solutions.

Operating from offices in the UK and Canada, we support commercial publishers, technology companies and government agencies around the world.

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CHAIRMAN'S STATEMENT

We are disappointed to report that our sales revenues and profits decreased year on year. An anticipated reduction in OmniMark software orders was partially offset by a 42% increase in revenues for Migrate, our cloud conversion service, which continues to strengthen its position in the DITA XML conversion market. Unfortunately, the shelving of a major conversion project by a European customer significantly impacted our final results.

However, I am pleased to report that we have made good progress with the development of AuthorBridge, a new content authoring solution for non-technical business users. Its initial release is scheduled for the coming months, and we are very encouraged by the preliminary customer feedback that has so far been received. We consider AuthorBridge as a potentially disruptive technology in the world of XML authoring and look forward to it making a significant contribution to our future financial performance.

Trading across the Company remains satisfactory. We anticipate a successful launch for AuthorBridge in 2015 although we do not anticipate that it will make a significant contribution to Stilo's results in the current year.

David Ashman
Chairman

17 March 2015

2014 saw a 42% growth in revenues for Migrate, with many prestigious new customers.

FINANCIAL HIGHLIGHTS 2014

- **Sales revenues £1,262,000**
  (2013: £1,504,000)
- **EBITDA* £108,000**
  (2013: £238,000)
- **Annual software maintenance revenues of £710,000**
  (2013: £728,000)
- **Continued investment in product development of £403,000**
  (2013: £406,000)
- **Cash position broadly unchanged at £1,089,000 as at 31 December 2014**
  (2013: £1,085,000)
- **Final dividend proposed of 0.03 pence per Ordinary Share, making total dividend of 0.06 pence for the year**

*EBITDA comprises profit before taxation, interest, depreciation and the amortisation of software development costs, and excludes non-recurring exceptional costs

BUSINESS HIGHLIGHTS 2014

- 42% growth in revenues for **Migrate**, the world's first cloud XML content conversion service, with prestigious new customers including **Kaplan Professional Education, ADP, Pitney Bowes, Deltek, Ansys, SAP, Intel, Atmel, Vestas, Unicef** and **Cray**
- Orders for **OmniMark**, a high-performance content processing development platform, received from **Embraer (Brazil), Japan Patent Office, European Parliament** and **National Geospatial (USA)**
- Encouraging progress made with the development of **AuthorBridge**, a ground-breaking **XML content authoring solution** for non-technical users

BUSINESS REVIEW

The content management systems that support digital publishing applications typically necessitate that content is stored in a neutral XML (Extensible Markup Language) format prior to its assembly and publication. Stilo develops tools to help organisations automate the conversion of legacy content to XML, author new content in XML format, and build XML content processing components integral to enterprise-level publishing solutions.

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

The market for DITA-based tools and solutions is growing steadily, with several hundred companies having adopted the standard worldwide. With a strong reputation for excellent products and supporting services, Stilo is well-positioned to be successful in this particular sector, and we will also seek to expand beyond the DITA market, as suitable business opportunities arise.

PROJECTS AND CUSTOMERS

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

Users include Boeing, Pratt and Whitney, EADS, Thomson Publishing, and Wolters Kluwer. Sales for the period included orders from the European Parliament, Embraer, National Geospatial and the Japan Patent Office.

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

Migrate users include IBM, Cisco, EMC and Oracle. New customers in 2014 include Kaplan Professional Education, Pitney Bowes, Deltek, ADP, SAP, Intel, Ansys, Atmel, Vestas, Unicef and Cray.

AuthorBridge

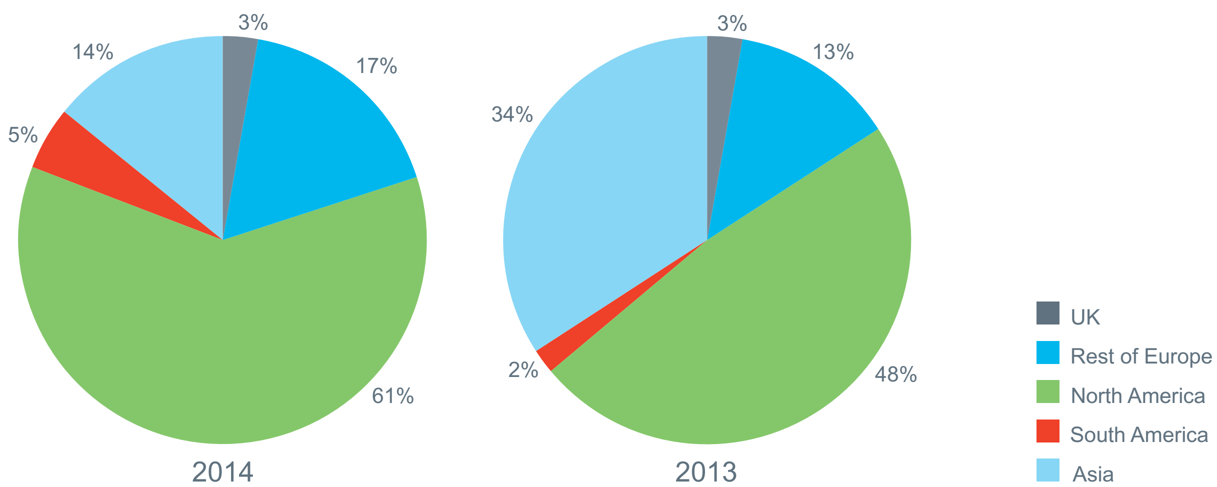
AuthorBridge is a low-cost, web-based XML authoring solution designed for occasional contributors who have no knowledge of DITA or its complexities. It incorporates CK Editor, the world's leading open source HTML editor, and provides a guided DITA authoring experience for non-technical users.

It is targeted at large enterprises, who are looking to extend the use of DITA across potentially thousands of users. We are currently engaged in a pilot project with a very prestigious customer, with the initial release of AuthorBridge planned for later in 2015.

AuthorBridge is set to be a potentially disruptive technology in XML authoring.

SALES ANALYSIS BY GEOGRAPHIC REGION

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



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

TECHNICAL EXPERTISE

Our development team includes leading experts in the development of XML content processing technologies and solutions, and are very highly regarded by customers. Our support services are similarly regarded, as we support and train customers on a worldwide basis.

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

OPERATIONS

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

As of 31 December 2014, there were 16 permanent employees in the Company, complemented by the use of contractors. In 2015 we will be making additional investments in the recruitment of development and support 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 opportunities.

FINANCIAL RESULTS

The results for the year ended 31 December 2014 have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the European Union.

In 2014, the results for Stilo show a decreased EBITDA (excluding exceptional costs) of £108,000 (2013: £238,000). Pre-tax profits were £95,000 (2013: £153,000).

Total sales revenues for the period were £1,262,000 (2013: £1,504,000). The decrease in revenue was due primarily to an expected reduction in OmniMark software licence sales which was partially offset by an increase in Migrate sales. The Company continued to benefit from revenue from software maintenance contracts of £710,000 (2013: £728,000) which represents 56% of annual sales revenue. Adverse foreign currency effects across the year meant that revenue was depressed by approximately £51,000 compared to 2013.

Despite the decrease in sales revenue, careful control over operating costs and the continued change in the revenue mix towards technology sales meant that the company was again able to record a profit in the year.

Operating expenses, excluding capitalised development costs were £1,152,000 (2013: £1,255,000).

Investment in R & D continued in 2014, with total expenditure for the year of £403,000 (2013: £406,000). Of this expenditure, £114,000 relating to the development of AuthorBridge has been capitalised. The development of AuthorBridge continues with initial revenues anticipated in 2015. As a result of this investment, Stilo continues to benefit from research and development tax credits.

There was a cash balance of £1,089,000 as at 31 December 2014 (31 December 2013: £1,085,000), and Stilo remains entirely un-geared. This balance sheet stability provides a sound 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.

DIVIDENDS

The Board recommends payment of a Final Dividend for the year of 0.03 pence per Ordinary Share which, if approved, will be paid on 19 May 2015 to shareholders on the register on 24 April 2015. The shares will be marked ex-dividend on 23 April 2015. If approved, payment of the Final Dividend will bring the total dividends paid to shareholders for the year to 0.06 pence per Ordinary Share.

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

BUSINESS RISK AND KEY PERFORMANCE INDICATORS

A detailed review of activities and developments in the Group is contained in the Chairman's Statement and Strategic Report on pages 2 to 8.

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 revenue is contained in Note 2 on page 29. Commentary on the financial performance of the Company is given in the Chairman's Statement and Strategic Report.

Receivables, including ageing, debtor day trends and cash collection. Further information about receivables is given in Note 13 on page 36. Debtor days at 31 December 2014 were 47 days (2013: 50 days). Whilst outside of standard 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 page 30. 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 41 and 42.

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

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

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

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

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

Signed on behalf of the Board

Richard Alsept, Company Secretary
17 March 2015

DIRECTORS' REPORT

The Directors present their report together with the audited accounts of the Group and the Company for the year ended 31 December 2014.

RESULTS AND DIVIDENDS

The Group profit for the year after taxation was £153,000 (2013: profit of £207,000). During the year an interim dividend of £33,000 (0.03pence per Ordinary Share) was declared and paid (2013: interim dividend £22,000, special dividend £110,000). A final dividend for the year of £33,000 (0.03pence per Ordinary Share) has been proposed by the Directors for approval at the AGM (2013: £33,000). The commencement of dividend payments followed the reconstruction of the Company's reserves which eliminated the share premium account, and cancelled all of the Deferred Shares held by the Company in 2013. The directors consider that the going concern basis is still appropriate, supported by the continued profitability of the company and the steady cash balances, and the financial statements are prepared on the going concern basis. Further information is given in Note 1 on page 23.

FUTURE DEVELOPMENTS

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

DIRECTORS AND THEIR INTERESTS

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

SUBSTANTIAL SHAREHOLDINGS

At 3 March 2014 the Company had been notified of the following shareholding, other than Directors, who are interested directly or indirectly in three per cent or more of the issued share capital of the Company.

	Number of ordinary shares held	Percentage of issued ordinary share capital
Brewin Nominees Limited	33,882,825	30.86%
HSDL Nominees Limited	6,100,000	5.55%
Mossland Limited	4,100,000	3.73%
S J Buswell	4,084,416	3.72%
S C Healey	3,384,416	3.08%

DIRECTORS' RESPONSIBILITIES

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

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

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

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

DIRECTORS' RESPONSIBILITIES *continued*

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

a. select suitable accounting policies and then apply them consistently;

b. make judgements and accounting estimates that are reasonable and prudent;

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

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

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

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

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

POLITICAL CONTRIBUTIONS

During the year the Group made no political donations (2013: £nil).

RESEARCH AND DEVELOPMENT

Research and development expenditure for the year, excluding costs capitalised which amounted to £114,000, was £289,000 (2013: £406,000). Further information relating to research and development is contained in the Chairman's Statement and Strategic Report on pages 2 to 8.

EMPLOYEES

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

ENVIRONMENT

The activities of the Group do not pose environmental hazards. The Group monitors energy consumption and 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
17 March 2015

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 2014 in the shares of the Company were as follows:

	31 December 2014 Number of Ordinary Shares	1 January 2014 Number of Ordinary Shares
Executive		
L Burnham	5,000,000	5,000,000
Non-executive		
D Ashman	12,200,000	11,400,000

SHARE OPTION SCHEME

At 31 December 2014 the following share options were held by Directors:

	1 January 2014	Number Granted in the year	Number Cancelled in the year	31 December 2014	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 2.6p and the range of the market prices during the year ended 31 December 2014 was between 4.0p and 2.6p.

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

17 March 2015

DIRECTORS AND OFFICERS

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

David Ashman – *Non-Executive Director and Chairman*

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

Leslie Burnham – *Director and Chief Executive Officer*

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

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

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

Richard Alsept – *Director, 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 AND OTHER COMPANY INFORMATION

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

REGISTERED NUMBER
03893693

PRINCIPAL BANKERS
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22-25 Farringdon Street
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SOLICITORS
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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 Asset Services
40 Dukes Place
London
EC3A 7NH

CORPORATE GOVERNANCE

COMPLIANCE
As the Company is listed on AIM, it is not required to comply with the provisions set out in the 2012 UK Corporate Governance Code. However, the following information is provided which describes how the Company applies principles of corporate governance that the Directors consider appropriate for a company of this size.

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

The Board consists of 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 12.

Good corporate governance would expect 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 page 23.

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 16 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 AUDITOR

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 Financial Reporting Council's website at http://www.frc.org.uk/auditscopeukprivate

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 2014 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 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 Strategic Report and 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.

JEREMY FILLEY *(Senior Statutory Auditor)*
For and on behalf of **BAKER TILLY UK AUDIT LLP**, *Statutory Auditor*
Chartered Accountants
22-25 Farringdon Street, London EC4A 4AB
17 March 2015

GROUP INCOME STATEMENT

for the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Revenue – continuing operations	2	**1,262**	1,504
Cost of sales		**(13)**	(22)
Gross profit		**1,249**	1,482
Operating expenses		**(1,152)**	(1,255)
Exceptional costs		**–**	(34)
Amortisation of intangible assets		**(8)**	(48)
Operating profit	4	**89**	145
Finance Income	6	**6**	8
Profit before tax		**95**	153
Income tax	7	**58**	54
Profit for the year attributable to the equity shareholders of the parent company		**153**	207
Earnings per share – basic	8	**0.14p**	0.19p
Earnings per share – diluted	8	**0.13p**	0.18p
Dividends paid per share	29	**0.06p**	0.12p

GROUP STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2014

	2014 £'000	2013 £'000
Profit for the year	**153**	207
Other comprehensive income		
Items that may subsequently be reclassified to profit and loss		
Foreign currency translation differences	**(30)**	(41)
Other comprehensive income for the year, net of tax	**(30)**	(41)
Total comprehensive income for the year	**123**	166

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

GROUP AND PARENT COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2014

		Group		Company	
		2014	2013	**2014**	2013
	Note	**£'000**	£'000	**£'000**	£'000
Non-current assets					
Goodwill	*9*	**1,674**	1,676	**–**	–
Other intangible assets	*10*	**118**	12	**–**	–
Investments	27	**–**	–	**1,094**	1,238
Plant and equipment	*11*	**20**	19	**–**	–
Deferred tax asset	*12*	**50**	50	**–**	–
		1,862	1,757	**1,094**	1,238
Current assets					
Trade and other receivables	*13*	**272**	272	**99**	–
Income tax asset		**59**	55	**–**	–
Cash and cash equivalents	*15*	**1,089**	1,085	**–**	–
		1,420	1,412	**99**	–
Total assets		**3,282**	3,169	**1,193**	1,238
Current liabilities					
Trade and other payables	*16*	**453**	391	**–**	–
Non-current liabilities					
Other payables	*17*	**11**	17	**–**	–
Total liabilities		**464**	408	**–**	–
Equity attributable to equity shareholders of the parent Company					
Called up share capital	*18*	**1,098**	1,098	**1,098**	1,098
Merger reserve		**658**	658	**–**	–
Retained earnings		**1,062**	1,005	**95**	140
Total equity		**2,818**	2,761	**1,193**	1,238
Total equity and liabilities		**3,282**	3,169	**1,193**	1,238

The accounts on pages 16 to 45 were approved by the Board of Directors and authorised for issue on 17 March 2015 and signed on its behalf by:

Les Burnham
Chief Executive Officer

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

Attributable to the equity shareholders of the parent company

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2013	5,619	5,524	658	(9,075)	2,726
Comprehensive income					
Profit for the financial year	–	–	–	207	207
Other comprehensive income					
Exchange adjustments – may recycle to profit and loss account	–	–	–	(41)	(41)
Total comprehensive income	–	–	–	166	166
Transactions with owners					
Share-based transactions	–	–	–	1	1
Dividends paid	–	–	–	(132)	(132)
Shares cancelled	(4,521)	(5,524)	–	10,045)	–
Total transactions with owners	(4,521)	(5,514)	–	9,914	(131)
Balance at 1 January 2014	1,098	–	658	1,005	2,761
Comprehensive income					
Profit for the financial year	–	–	–	153	153
Other comprehensive income					
Exchange adjustments – may recycle to profit and loss account	–	–	–	(30)	(30)
Total comprehensive income	–	–	–	123	123
Transactions with owners					
Dividend paid	–	–	–	(66)	(66)
Shares cancelled	–	–	–	–	–
Total transactions with owners	–	–	–	(66)	(66)
At 31 December 2014	**1,098**	**–**	**658**	**1,062**	**2,818**

Share premium account

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

Merger reserve

The merger reserve has arisen from the acquisition of subsidiary companies.

Retained Earnings

Retained Earnings represent the accumulated retained profits and losses less payment of dividends, and includes the cancellation of the deferred shares and the share premium account.

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

Attributable to the equity shareholders of the parent company

	Called up share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
At 1 January 2013	5,619	5,524	(9,782)	1,361
Comprehensive income				
Profit for the financial year	–	–	8	8
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	8	8
Transactions with owners				
Share-based transactions	–	–	1	1
Dividend paid	–	–	(132)	(132)
Shares cancelled	(4,521)	(5,524)	10,045	–
Total transactions with owners	(4,521)	(5,524)	9,914	(131)
At 1 January 2014	1,098	–	140	1,238
Comprehensive income				
Profit for the financial year	–	–	21	21
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	21	21
Transactions with owners				
Share-based transactions	–	–	–	–
Dividend paid	–	–	(66)	(66)
Total transactions with owners	–	–	(66)	(66)
At 31 December 2014	**1,098**	**–**	**95**	**1,193**

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

Retained Earnings
Retained Earnings represent the accumulated retained profits and losses less payment of dividends, and includes the cancellation of the deferred shares and the share premium account.

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2014

	Note	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Cash flows from operating activities					
Profit before taxation		**95**		153	
Adjustment for depreciation and amortisation		**19**		59	
Adjustment for investment income		**(6)**		(8)	
Adjustment for foreign exchange differences		**(28)**		(31)	
Adjustment for financial derivatives		**24**		2	
Adjustment for share-based payments		**–**		1	
Operating cash flows before movements in working capital		**104**		176	
(Increase) in trade and other receivables		**–**		(60)	
Increase in trade and other payables		**32**		77	
Cash generated from operations			**136**		193
Tax paid			**(1)**		(1)
Tax credit received			**55**		55
Net cash generated from operating activities			**190**		247
Cash flows from investing activities					
Finance income			**6**		8
Development costs capitalised			**(114)**		–
Purchase of equipment			**(12)**		(14)
Net cash used in investing activities			**(120)**		(6)
Financing activities					
Dividends paid			**(66)**		(132)
Net cash used in financing activities			**(66)**		(132)
Net increase in cash and cash equivalents			**4**		109
Cash and cash equivalents at beginning of year			**1,085**		976
Cash and cash equivalents at end of year	*15*		**1,089**		1,085

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 2014

	2014		2013	
	£'000	£'000	£'000	£'000
Net cash inflow from operating activities				
Profit before taxation	**21**		9	
Operating cash flows before movements in working capital	**21**		9	
(Increase) in trade and other receivables	**(99)**		–	
Cash generated from operations		**(78)**		9
Acquisitions and disposals				
Loans from subsidiary companies	**144**		123	
Net cash inflow from acquisitions and disposals		**144**		123
Net cash inflow before management of liquid resources and financing		**66**		132
Financing activities				
Dividends paid		**(66)**		(132)
Share issue costs		**–**		–
Net cash used in financing activities		**(66)**		(132)
Increase in cash and cash equivalents		**–**		–
Cash and cash equivalents at beginning of year		**–**		–
Cash and cash equivalents at end of year		**–**		–

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

NOTES TO THE GROUP ACCOUNTS
for the year ended 31 December 2014

1 ACCOUNTING POLICIES

(a) Basis of Preparation

Stilo International Plc is a public limited 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 2014, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.The financial statements have been prepared in sterling, which is the Group's presentation currency. Except for foreign exchange contracts held at fair value, they have been prepared using the historical cost convention.

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

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

The functional currency is sterling because that is the currency of the primary economic environment in which the company 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 27 requires accounting and disclosure requirements for investments in subsidiaries, joint ventures, and an associate where an entity presents separate financial statements;

The introduction of IFRS 10 means that 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;

IFRS 12 Disclosure of Interests in Other Entities

Updated disclosure requirements in respect of subsidiaries, joint arrangements, associates and other unconsolidated structured entities, together with clarification of reliefs from the presentation or adjustment of comparative information.

IFRS 7/IAS32 Financial Instruments – Disclosure – Amendment; Offsetting Financial Assets and Financial Liabilities.

Provides guidance on the meaning of “a legally enforceable right of set off” and situations where gross settlement systems may be considered equivalent to net settlement.

IAS 39 Impairment of Assets – Amendment; Recoverable Amount Disclosures for Non-Financial Asset.

Now only requires disclosure of recoverable amount when an impairment loss is recognised or reversed in the period in respect of an individual asset or CGUs, and requires disclosure of the fair value hierarchy levels and, for levels 2 and 3, the valuation technique and key assumptions used, when that recoverable amount is based on fair value less costs of disposal.

The directors anticipate that the adoption of these Standards and Interpretations in future periods willhave 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 is exposed or has the right to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date irrespective of the extent of any minority interest.

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

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

(c) Revenue recognition

Revenue represents the fair value of goods and services supplied and is stated net of value added tax. Revenues consist of cloud services, software and software maintenance, and consulting. Consulting services revenue represents the fair value of contracts completed during the period, as well as the estimated fair value of partially completed contracts at 31 December 2014. 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 fair value of the consideration payable over the Group’s interest in the fair value of identifiable net assets acquired. Goodwill is reviewed annually for impairment. 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 change in fair value is 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.

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

The Group assesses at each reporting date whether an asset may be impaired. If any such indicator exists, the entity tests for impairment by estimating the recoverable amount. If the recoverable amount is less than the carrying value of an asset an impairment loss is required. 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.

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

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the 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.

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. 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 the income statement.

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

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

(n) Provisions
Provisions are recognised in the 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.

(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 £114,000 (2013: £nil) of development costs met the criteria for recognition as intangible assets as defined in IAS 38 on a project initiated during 2014. The recognition criteria on which this judgement was made are given in more detail in the Intangible Assets accounting policy. The capitalised development costs are being amortised over a period which is considered by management to be the minimum economic useful life of the asset.

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 (2013: £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.

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

2 REVENUE AND SEGMENTAL ANALYSIS

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

Analysis by geographical segment
At 31 December 2014, 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:

	2014			2013		
	Revenue by destination £'000	**Non-current Assets £'000**	**Capital Expenditure £'000**	Revenue by destination £'000	Non-current Assets £'000	Capital Expenditure £'000
United Kingdom	**35**	**109**	**5**	52	112	4
Rest of Europe	**213**	**–**	**–**	202	–	–
North America	**773**	**1,753**	**7**	717	1,645	10
South America	**63**	**–**	**–**	25	–	–
Asia	**178**	**–**	**–**	508	–	–
	1,262	**1,862**	**12**	1,504	1,757	14

Revenues of £177,000 (2013: £496,000) which represent more than 10% of total revenues are derived from an individual external customer in North America.

3 STAFF COSTS

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

	2014 £'000	2013 £'000
Wages and salaries	728	704
Social security costs	75	72
Pension contributions	61	60
Share-based payments	–	1
	864	837

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

	2014 No.	2013 No.
Research and development	7	6
Sales, marketing and customer support	5	4
Management and administration	4	5
	16	15

The number of persons employed at 31 December 2014 was 16 (2013: 16).

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	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Salary and fees	107	111	33	35
Pension contributions	58	58	–	–
Social security costs	12	13	3	3
Other benefits	5	4	–	–
	182	186	36	38

David Ashman receives no emoluments (2013: nil).

One director (2013: one) was accruing a benefit under a defined contribution scheme.

4 OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2014 £'000	2013 £'000
Depreciation of owned property, plant and equipment	**11**	11
Amortisation of intangible assets	**8**	48
Exceptional costs – professional fees re capital reduction	**–**	34
Operating lease rentals		
– Land and buildings	**64**	91
– Other	**3**	3
Research and development	**289**	406
Auditor's remuneration		
– Audit fees – parent company and consolidation	**17**	16
– Audit fees – subsidiaries	**12**	12
– Audit related assurance services – parent company	**2**	2
– Taxation advisory services – parent company	**–**	1
Loss on fair value of derivative financial instrument	**24**	2
Net foreign exchange (gains) recognised in the income statement	**(29)**	(28)

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

	2014 £'000	2013 £'000
Baker Tilly UK Audit LLP		
Fees in respect of the parent company's annual accounts and consolidation	**17**	16
Fees in respect of subsidiary's annual accounts	**12**	12
Fees in respect of interim report – parent company	**2**	2
Baker Tilly UK Audit LLP total	**31**	30
Baker Tilly Tax and Advisory Services LLP		
Taxation advisory services	**–**	1
Members of Baker Tilly International		
Collins Barrow for taxation services	**4**	4
Total	**35**	35

5 OTHER LOSSES

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

	2014 £'000	2013 £'000
Ineffectiveness on cash flow hedges	**(24)**	(2)

Other losses are included within operating expenses.

6 FINANCE INCOME

	2014 £'000	2013 £'000
Interest on short-term deposits	**6**	8

7 INCOME TAX

(a) Current year tax (credit)

	2014 £'000	2013 £'000
Taxation charge	**1**	1
Overseas taxation credit	**(59)**	(55)
	(58)	(54)

(b) Tax reconciliation

	2014 £'000	2013 £'000
The tax assessed for the year differs from the small companies' rate in the UK (20%). The differences are explained below:		
Profit on ordinary activities before tax	**95**	153
Tax at 20% (2013: 20%)	**19**	31
Effects of:		
Expenses not deductible for tax purposes	**2**	12
Tax losses (utilised)	**(20)**	(42)
Research and development tax credit (including overseas)	**(59)**	(55)
Tax (credit) for the year	**(58)**	(54)

There are tax losses of approximately £5.1 million (2013: £5.0 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 £153,000 (2013: profit of £207,000), and the weighted average number of ordinary shares in issue during the year of 109,808,470 (2013: 109,808,470). The fully diluted earnings per share in 2014 takes account of outstanding options which results in a weighted average number of shares in issue during the year of 113,383,710 (2013: 114,283,845).

9 GOODWILL – GROUP

Goodwill

	£'000
Cost	
At 1 January 2013	1,688
Exchange rate translation difference for assets held in foreign currency	(12)
At 1 January 2014	1,676
Exchange rate translation difference for assets held in foreign currency	(2)
At 31 December 2014	**1,674**
Accumulated impairment	
At 1 January 2013	–
Impairment loss	–
At 1 January 2014	–
Impairment loss	–
At 31 December 2014	**–**
Closing carrying value	
At 31 December 2014	**1,674**
At 31 December 2013	**1,676**
At 31 December 2012	**1,688**

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.

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

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

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

The recoverable amount of the goodwill has been determined by value in use calculations, using pre-tax cash flow projections based on financial budgets approved by management covering a five year period. Cash flows arising from OmniMark software maintenance are extended beyond the five year period as these revenues are annual, recurring revenues which are expected to continue indefinitely. Cash flows beyond the five year period are extrapolated using a growth rate of between 2% and 5% (2013: 2%–5%). The growth rate does not exceed the long-term average growth rate for the industry. A discount rate of 10% (2013: 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.

10 OTHER INTANGIBLE ASSETS – GROUP

	Contracts and Tools £'000	Development Costs £'000	Total £'000
Cost			
At 1 January 2013	148	237	385
Additions	–	–	–
At 1 January 2014	148	237	385
Additions	–	114	114
At 31 December 2014	**148**	**351**	**499**
Accumulated amortisation			
At 1 January 2013	148	177	325
Amortisation charge for the year	–	48	48
At 1 January 2014	148	225	373
Amortisation charge for the year	–	8	8
At 31 December 2014	**148**	**233**	**381**
Closing carrying value			
At 31 December 2014	**–**	**118**	**118**
At 31 December 2013	**–**	**12**	**12**
At 31 December 2012	**–**	**60**	**60**

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 Stilo Migrate conversion portal, and to the development of AuthorBridge.

Sales of Stilo Migrate commenced in 2009. Costs are being amortised over the product's expected useful life of 5 years, commencing in 2009. In 2012 expenditure totalling £14,000 representing the development of a new Migrate pipeline was capitalised. Sales for this pipeline commenced in 2012, and these costs will be amortised over 3 years, commencing in 2012.

Development of AuthorBridge commenced in 2014, and was ongoing at 31 December 2014. Sales are expected to commence in 2015. No amortisation has been charged in 2014 on this development as the project has not yet been completed.

The amortisation charge is shown separately within operating expenses.

11 PLANT AND EQUIPMENT – GROUP

	Office equipment and fixtures £'000	Computer equipment £'000	Leasehold improve-ments £'000	Total £'000
Cost				
At 1 January 2013	14	147	62	223
Additions	4	10	–	14
Disposals	–	(5)	–	(5)
At 1 January 2014	18	152	62	232
Additions	3	9	–	12
Disposals	–	(1)	–	(1)
At 31 December 2014	**21**	**160**	**62**	**243**
Depreciation				
At 1 January 2013	12	134	61	207
Charge for the year	1	10	–	11
Disposals	_	(5)	–	(5)
At 1 January 2014	13	139	61	213
Charge for the year	2	9	–	11
Disposals	_	(1)	–	(1)
At 31 December 2014	**15**	**147**	**61**	**223**
Net book value				
At 31 December 2014	**6**	**13**	**1**	**20**
At 31 December 2013	**5**	**13**	**1**	**19**
At 31 December 2012	**2**	**13**	**1**	**16**

The depreciation charge is included within administrative expenses.

12 DEFERRED TAX – GROUP

Deferred tax assets comprise:

	2014 £'000	2013 £'000
At 1 January 2014	**50**	50
Unused tax losses recognised in the accounts	**–**	–
At 31 December 2014	**50**	50

At the balance sheet date, the Group has unused tax losses of approximately £5.1m (2013: £5m) available for offset against future profits. A deferred tax asset of £50,000 (2013: £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 2014 of £nil (2013: £nil).

13 TRADE AND OTHER RECEIVABLES – GROUP

	Group		Company	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Trade receivables	**229**	234	**–**	–
Intercompany receivable	–	–	**99**	–
Other receivables	**–**	5	**–**	–
Prepayments	**38**	26	**–**	–
VAT receivable	**5**	7	**–**	–
	272	212	**99**	–

Standard credit terms for trade receivables are 30 days from invoice date, although certain credit terms are contract-specific. All trade receivables are due within standard credit terms of 30 days. The directors consider that the carrying amount of trade and other receivables approximates their fair value. Gross trade receivables at year end were £229,000 (2013: £234,000). A bad debt reserve of £nil (2013: £nil) is provided against impaired debts. The value of debts which were past due but not impaired at year end was £10,000 (2013: £nil). The ageing of these debts is as follows:

	2014 £'000	2013 £'000
Up to 1 month overdue	**6**	–
1 to 2 months overdue	**1**	–
More than 2 months overdue	**3**	–
	10	–

Trade receivables denominated in US dollars at year end were £168,000 (2013: £220,000), trade receivables denominated in Euro's were £45,000 (2013: £14,000), with the balance of receivables denominated in sterling (2013: nil).

The trade receivable for the company is owed by Stilo Corporation and is all denominated in US dollars.

14 OTHER FINANCIAL ASSETS/(LIABILITIES): DERIVATIVE FINANCIAL INSTRUMENTS – GROUP

	2014 £'000	2013 £'000
Assets/(liabilities) at fair value through profit or loss		
Current financial (liabilities)		
Derivatives used for hedging:		
Forward foreign exchange contracts – cash flow hedges	**(26)**	(2)
	(26)	(2)

Trading derivatives are classified at full fair value as a current liability 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:

	2014 £'000	2013 £'000
Canadian Dollars	**367**	242
US Dollars	**186**	–
Euros	**–**	83

Changes in the fair value of non-hedging currency derivatives amounting to a charge of £24,000 have been charged to income in the year (2013: £2,000), and are shown within operating expenses. Fair values have been measured at the end of the reporting period using observable market data.

The liability arising at the year end on these contracts was £26,000 (2013: £2,000) and is included in Other creditors and accrued expenditure. Any gain or loss will ultimately crystallise during 2015. The fair value of the forward foreign exchange contracts, which is a level 2 category of financial instrument, is determined using exchange rates at the balance sheet date with the resulting value discounted back to present value.

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:

	2014 £'000	2013 £'000
Cash on hand and balances with banks	**280**	373
Short-term deposits	**809**	712
	1,089	1,085

The carrying amount of these assets approximates their fair value.

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:

	2014 £'000	2013 £'000
Cash on hand and balances with banks	**–**	–

The carrying amount of these assets approximates their fair value.

16 TRADE AND OTHER PAYABLES – GROUP

	2014 £'000	2013 £'000
Trade payables	**25**	22
Other creditors and accrued expenditure	**92**	94
Deferred income	**328**	268
Other taxation and social security	**8**	7
	453	391

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

The average credit period taken at 31 December 2014 was 27 days (2013: 26 days).

Trade payables denominated in Euros at year end were £4,000 (2013: £6,000), in Canadian dollars £2,000 (2013: £nil) and in US dollars £1,000 (2013: £nil).

17 NON-CURRENT LIABILITIES – OTHER PAYABLES – GROUP

	2014 £'000	2013 £'000
Deferred income	**11**	17

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

18 SHARE CAPITAL – GROUP AND PARENT

	2014 £'000	2013 £'000
Authorised		
247,943,770 Ordinary shares of 1p each	**2,479**	2,479
452,056,230 Deferred shares of 1p each	**–**	–
	2,479	2,479
Issued and fully paid for		
109,808,470 (2013: 109,808,470) Ordinary shares of 1p each	**1,098**	1,098
452,056,230 (2013: 452,056,230) Deferred shares of 1p each	**–**	–
	1,098	1,098

No shares were issued during the year.

In 2013, the deferred shares were cancelled and extinguished following a special resolution passed at a General Meeting of shareholders held on 31 July 2013, and approved at a hearing of the High Court of Justice Chancery Division on 4 September 2013. The Deferred shares had no economic value, no right to receive any dividend and have no right to attend or vote at a General Meeting of the Company. The resolution and subsequent High Court approval also cancelled the Share Premium Account which stood at £5,524,000.

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 2014	Granted	Exercised/ Cancelled	**As at 31 December 2014**	Exercise price
Unapproved Scheme:					
– from 30 April 2010 to 30 April 2018	474,000	–	–	**474,000**	1.5p
– from 23 October 2011 to 23 October 2019	1,300,000	–	–	**1,300,000**	1.25p
– from 20 April 2013 to 20 April 2021	2,388,000	–	–	**2,388,000**	1.25p
– from 23 April 2016 to 23 April 2024	–	200,000	–	**200,000**	3.38p
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
– from 25 April 2016 to 25 September 2024	–	50,000	–	**50,000**	3.0p
	8,112,000	250,000	–	**8,362,000**	

An expense of £1,000 was recognised from share-based transactions in the year (2013: £1,000).

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

Equity-settled share option plan

The Group plan provides for a grant price equal to the average quoted market price of the Group shares on the date of grant. All 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.

	2014		2013	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding at 1 January	**8,112,000**	**1.79p**	8,112,000	1.79p
Granted during the year	**250,000**	**3.30p**	–	–
Forfeited during the year	**–**	**–**	–	–
Exercised during the year	**–**	**–**	–	–
Expired during the year	**–**	**–**	–	–
Outstanding at 31 December	**8,362,000**	**1.83p**	8,112,000	1.79p
Exercisable at 31 December	**8,112,000**	**1.79p**	8,112,000	1.79p

No share options were exercised during the year. The options outstanding at 31 December 2014 had a weighted average exercise price of 1.83p, and a weighted average remaining contractual life of 5.3 years.

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

	2014	2013
Weighted average share price	**3.30p**	1.79p
Weighted average exercise price	**10p**	10p
Expected volatility	**37%**	42%
Expected life	**9 years**	6 years
Risk free rate	**1%**	1%
Expected dividends	**2%**	nil

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

The Group recognised total expenses of £nil (2013: £1,000) relating to equity-settled share-based payment transactions.

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 2014 is £61,000 (2013: £60,000).

21 CONTINGENT LIABILITIES

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

22 COMMITMENTS UNDER OPERATING LEASES

At 31 December 2014, the minimum lease payments under non-cancellable operating lease rentals are in aggregate as follows:

	2014 Land and buildings £'000	**2014 Other £'000**	2013 Land and buildings £'000	2013 Other £'000
Payable:				
– within 1 year	**53**	**3**	53	3
– within 1-5 years	**37**	**1**	89	4
– after 5 years	**–**	**–**	–	–
	89	**4**	142	7

Leasing commitments relate to office rentals and office equipment.

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

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

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

Interest rate profile
The Group has no financial assets other than sterling cash deposits of £0.8m (2013: £0.7m) invested at an approximate rate of 0.5% above Bank of England base rate. Group funds are invested in deposit accounts with the objective of maintaining a balance between accessibility of funds and competitive rates of return.

The Group had no interest bearing borrowings at 31 December 2014 or 2013.

Maturity of financial assets and liabilities
The maturity profile of the Group's financial liabilities as at 31 December 2014 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 2014 or 31 December 2013.

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 82% of sales are denominated in US dollars and 16% of sales are in euros. Approximately 60% of costs are in Canadian dollars and 2% of costs are in euros. Details of accounts receivable and accounts payable denominated in foreign currencies are given in Notes 13 and 16. Approximately 15% of the Group's cash is held in US dollars, and 43% 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 2014 if the US dollar had strengthened/weakened by 10% against the Canadian dollar, post-tax profit would have been £31,000 higher/lower as a result of the foreign exchange gains/losses on translation of US dollar-denominated cash and accounts receivable.

In 2014 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.

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. 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.

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, £195,000 (2013: £209,000).

Management fees charged by Stilo Technology Limited to Stilo International plc, £175,000 (2013: £200,000).

Fee for use of IP charged by Stilo Technology Limited to Stilo Corporation, £171,000 (2013: £183,000)

Cost recharge from Stilo Corp to Stilo Technology Limited, £9,000 (2013: £10,000).

At 31 December 2014, the following balances were owed by Group companies:

Owed by Stilo Technology Limited to Stilo International plc, £4,090,000 (2013: £4,234,000) which is included within investments within Stilo International plc after provisions of £4,090,000 (2013: £4,234,000).

Loan owed by Stilo Corporation to Stilo International plc, £866,000 (2013: £866,000) which is included within investments within Stilo International plc after provisions of £595,000 (2013: £595,000).

Owed by Stilo Corporation to Stilo International plc in respect of management fees £99,000 (2013: £nil).

Owed by Stilo Corporation to Stilo Technology Limited for use of IP £87,000 (2013: £nil).

Owed by Stilo Technology Limited to Stilo Corporation, £48,000 (2013: £39,000).

Dividends paid to directors were £10,080 (2013: £19,680).

26 BANK GUARANTEES

There were no bank guarantees given by the Company at 31 December 2014 or at 31 December 2013.

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 2013	2,442	3,973	6,415
Additions/(disposals)	(1,250)	1,127	(123)
At 1 January 2014	**1,192**	**5,100**	**6,292**
Additions/(disposals)	–	(144)	(144)
At 31 December 2014	1,192	4,956	6,148
Provisions:			
At 1 January 2013	1,619	3,435	5,054
Provision/(release) in the year	(1,250)	(1,250)	–
At 1 January 2014	369	4,685	5,054
Provision/(release) in the year	–	–	–
At 31 December 2014	**369**	**4,685**	**5,054**
Net book value:			
At 1 January 2013	823	538	1,361
At 1 January 2014	823	415	1,238
At 31 December 2014	**823**	**271**	**1,094**

The net book value of investments is stated after impairment write-downs and provisions against loans and investments of £5,054,000 (2013: £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 ATTRIBUTABLE TO PARENT COMPANY

The profit for the financial year dealt with in the accounts of Stilo International plc was £21,000 (2013: £8,000). As provided for by section 408 of the Companies Act 2006, no income statement is presented in respect of the parent company.

29 DIVIDENDS

Ordinary	**2014 £'000**	2013 £'000
Final paid (0.03 pence per share) (2013: nil)	**33**	–
Interim paid (0.03 pence per share) (2013: 0.02 pence per share)	**33**	22
Special paid (2013: 0.01 pence per share)	**–**	110
	66	132

The proposed final dividend for the year of 0.03 pence per share (2013: 0.03 pence per share) is not included as a liability in the financial statements as it is subject to shareholder approval.

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 14 May 2015 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 2014, together with the Directors' report and Auditors report thereon.

Final Dividend
Resolution 2: To declare a final dividend of 0.03pence per ordinary share for the financial year ended 31 December 2014.

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

Auditors
Resolution 4: To reappoint 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 5, as an ordinary resolution and as to resolutions 6 and 7 as special resolutions.

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

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

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

(a) in connection with or pursuant to an offer or invitation (but in the case of the authority granted under resolution 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 director consider it necessary, as permitted by the rights of those securities) but subject to such exclusions or other arrangements as the directors may deem necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any regulatory body or stock exchange in any territory or otherwise howsoever; and

(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.

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

(a) the maximum number of ordinary shares of 1 penny nominal value hereby authorised to be purchased is 10,980,847;

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

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

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

(e) the authority hereby conferred shall expire on the close of the next Annual General Meeting of the Company or, if earlier, on 14 August 2016 unless previously renewed, revoked or varied by the Company in general meeting; and

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

By order of the Board

Richard Alsept
Company Secretary

17 March 2015

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.

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.

EXPLANATORY NOTES TO THE RESOLUTIONS

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

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

Resolutions 6 to 7 are proposed as special resolutions. 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 2014.

Resolution 2: Final Dividend
Final dividends are approved by shareholders but cannot be more than the amount recommended by the Directors. The Directors have recommended a final dividend for the year ended 31 December 2014 of 0.03pence per ordinary share due and payable on 19 May 2015 to the shareholders on the register at close of business on 24 April 2015. This resolution seeks shareholder approval of the proposed dividend.

Resolution 3: Re-election of Directors
Pursuant to the Regulation 82 of the Company's articles of association, at each annual general meeting of the company all those directors who have been in office for three years or more since their last election or re-election shall retire from office. This is in accordance with section 1 of the Combined Code on Corporate Governance and Code of Best Practice (the "Combined Code") which requires all Directors to submit themselves for re-election at least every three years. As an AIM listed company, the provisions of the Combined Code are not strictly binding on the Company but are considered to be best practice. Therefore, David Ashman having been last re-elected in 2012 is retiring and offering himself for re-election.

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

Resolution 5: Authority to allot shares
This resolution proposes that the Directors' authority to allot shares be renewed. The authority previously given to the Directors at the last AGM of the Company will expire at this year's AGM. Under the Companies Act 2006, the Directors of the Company may only allot shares or grant rights to subscribe for or convert into shares if authorised to do so.

Paragraph (a) of resolution 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 6: Disapplication of pre-emption rights
Under the Companies Act 2006, if the Directors wish to allot shares for cash (other than in connection with an employee share scheme) they must first offer them to existing shareholders in proportion to their holdings (a "**pre-emption offer**"). There may be occasions, however, when the Directors will need the flexibility to finance business opportunities by the issue of ordinary shares without making a pre-emption offer to existing shareholders.

This resolution seeks to renew the Directors' power to allot equity securities in certain limited circumstances otherwise than in relation to a pre-emption offer. The power granted at the last AGM is due to expire at this year's AGM. Apart from pre-emption offers, the power is limited to the allotment of equity securities for cash up to an aggregate nominal value of £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 2015 AGM.

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

Resolution 7: Authority to purchase ordinary shares
This resolution is to allow the Company authority to make market purchases of its own shares. The authority should not be taken to imply that shares will be purchased at any particular price or, indeed, at all, and the Board has no present intention of exercising this power but would wish to retain the flexibility to do so in the future. The authority will expire at the earlier of the conclusion of the next Annual General Meeting or 14 August 2016. The Board intends to seek renewal of this power at subsequent Annual General Meetings.

The resolution specifies the maximum number of shares which may be purchased (representing approximately 10% of the Company's issued ordinary share capital as at 17 March 2015) and the maximum and minimum prices at which they may be bought, reflecting legal and regulatory requirements. Any purchases would only be made on the London Stock Exchange. The Directors have not yet decided whether such shares, if repurchased, would be cancelled or taken into treasury, and a decision would be taken in the light of prevailing circumstances. The Board will only exercise the power to make purchases of shares after consideration of the effects on earnings per share and the benefits for Shareholders generally.

stilo
international plc

FORM OF PROXY
FOR USE AT THE ANNUAL GENERAL MEETING OF
STILO INTERNATIONAL plc
ON 14 MAY 2015

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, 14 May 2015 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 2014			
2 To approve the final dividend for the year ended 31 December 2014			
3 To reappoint David Ashman as a Director			
4 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			
5 To authorise the Directors to allot relevant securities			
Special Resolutions			
6 To authorise the Directors to allot equity securities and to disapply statutory pre-emption rights in relation to the issue of certain equity securities			
7 To authorise the Directors to purchase ordinary shares			

Names of joint holders (if any) ______________________________

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

Signature ______________________ Dated ______________________ 2015

Notes:

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

2 Please indicate with an 'X' in the appropriate boxes how you wish the proxy to vote. The proxy will exercise his discretion as to how he votes or whether he abstains from voting:
(a) on any resolution referred to above if no instruction is given in respect of that resolution; and
(b) on any business or resolution considered at the meeting other than the resolutions referred to above.

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

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

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

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

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

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

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

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