ANNUAL REPORT

Financial year ending 31 December 2015

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.

CONTENTS

The Company made good progress in 2015. In addition to growing sales revenues and increasing profits, we made substantial progress with the development of AuthorBridge, our new cloud XML authoring service for non-technical users.

With cash reserves continuing to be strong, I am pleased to propose the payment of a final dividend of 0.05 pence per share, providing a total dividend for the period of 0.08 pence per share.

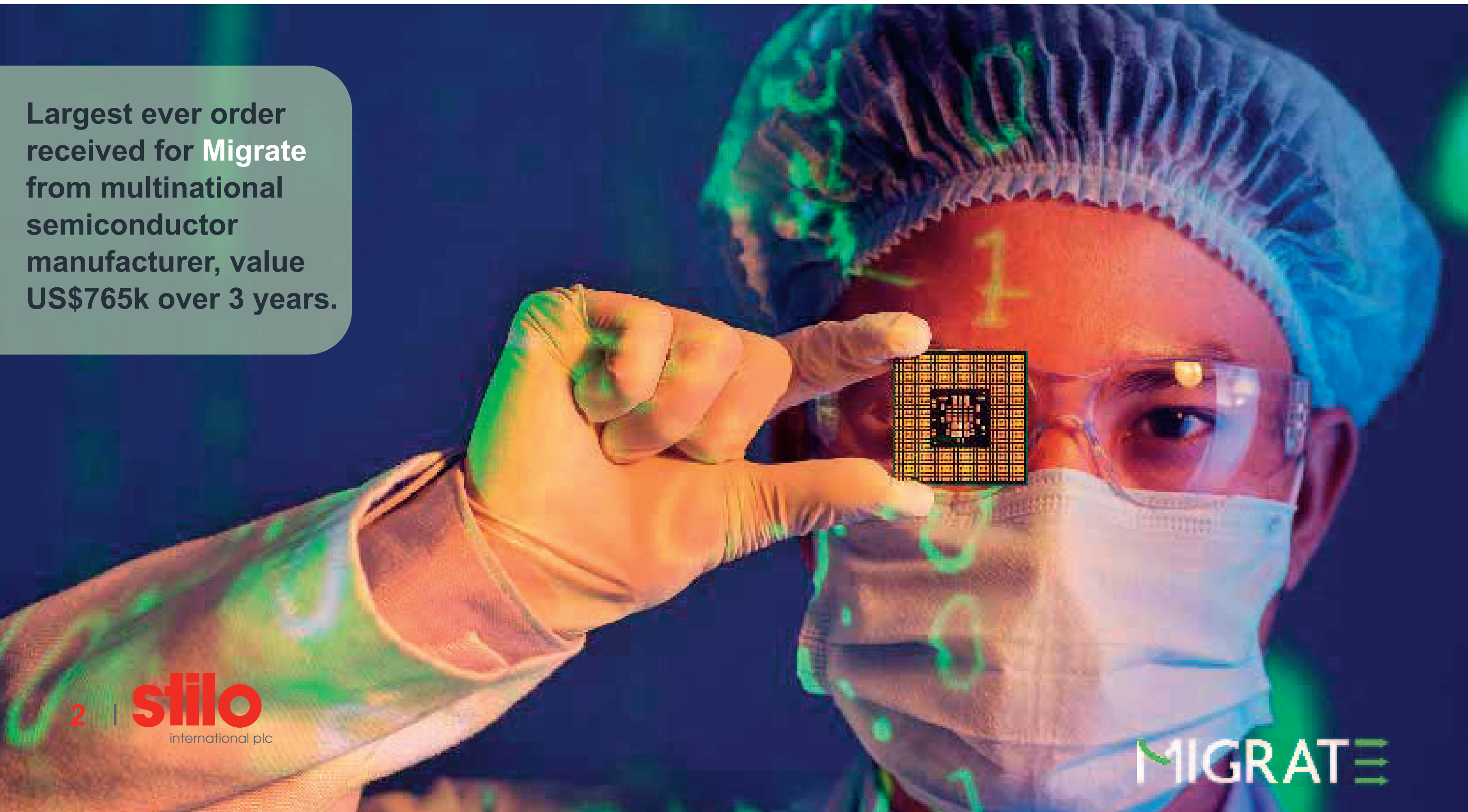
The market for XML DITA technologies and services continues to grow steadily, and it is our long-term intention to provide interoperable cloud services that dramatically reduce the barriers to entry and ongoing cost of ownership for new DITA adopters.

Migrate is now well-established as a unique and market-leading cloud conversion service. It helps us to quickly establish good relationships with new customers that in turn provide potential cross-sell opportunities for AuthorBridge.

We now look forward to the general release of AuthorBridge during 2016. Pricing will be based upon a low-cost annual licensing model, and while not significantly impacting results in 2016, it will serve to establish a firm foundation for growth in revenues and profits in future years.

David Ashman
Chairman

15 March 2016



FINANCIAL HIGHLIGHTS 2015

- **Sales revenues increased by 20% to £1,517,000 (2014: £1,262,000)**
- **Increase in EBITDA* to £272,000 (2014: £108,000)**
- **Annual recurring software maintenance revenues of £713,000 (2014: £710,000)**
- **Continued investment in product development of £419,000 (2014: £403,000)**
- **Improved cash position of £1,318,000 as at 31 December 2015 (2014: £1,089,000)**
- **Final dividend proposed of 0.05 pence per Ordinary Share, making total dividend of 0.08 pence for the year (2014:total 0.06 pence); increased by 33%**

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

BUSINESS HIGHLIGHTS 2015

- 61% growth in revenues for Migrate, the world's first cloud XML content conversion service, with new customers including **Qualcomm, Perceptive Software, Tridium, Infinera, Dell Software, Applied Materials, GE Medical, Molina Healthcare** and **Pitney Bowes**.
- Largest ever order for Migrate, value US$765k over 3 years, received from a major US client.
- Orders for OmniMark, a high-performance content processing development platform, received from the **European Parliament, Scandinavian Airlines, Honeywell, Japan Patent Office, Electric Boat** and **Hebco**.
- Successful beta testing of AuthorBridge, our new cloud XML authoring service, by major customer.

BUSINESS OVERVIEW

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

Over recent years, different industries have adopted specific XML standards e.g. Publishing (DocBook), Aerospace & Defence (S1000D), Finance (XBRL), Life Sciences (SPL), Software and High Tech (DITA). The decision was made by the Company 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. Stilo is now beginning to make inroads into new market sectors including Manufacturing, Life Sciences and Publishing.

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

With offices in the UK and Canada, we support clients throughout North America, Europe and Japan.

PRODUCTS AND CUSTOMERS

OmniMark

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

Users include Boeing, Pratt and Whitney, EADS, Thomson Publishing, and Wolters Kluwer. Sales for the period included orders from the European Parliament, Scandinavian Airlines, Honeywell, Electric Boat, Hebco, 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 2015 include Qualcomm, Perceptive Software, Tridium, Infinera, Openet, Sensus, Harmonic, NetApp, Dell Software, Applied Materials, GE Medical, Molina Healthcare and Pitney Bowes. During the period, we achieved a significant 61% growth in sales revenues, including our largest ever order for Migrate, with a value of US$765k over 3 years, from a major US client.

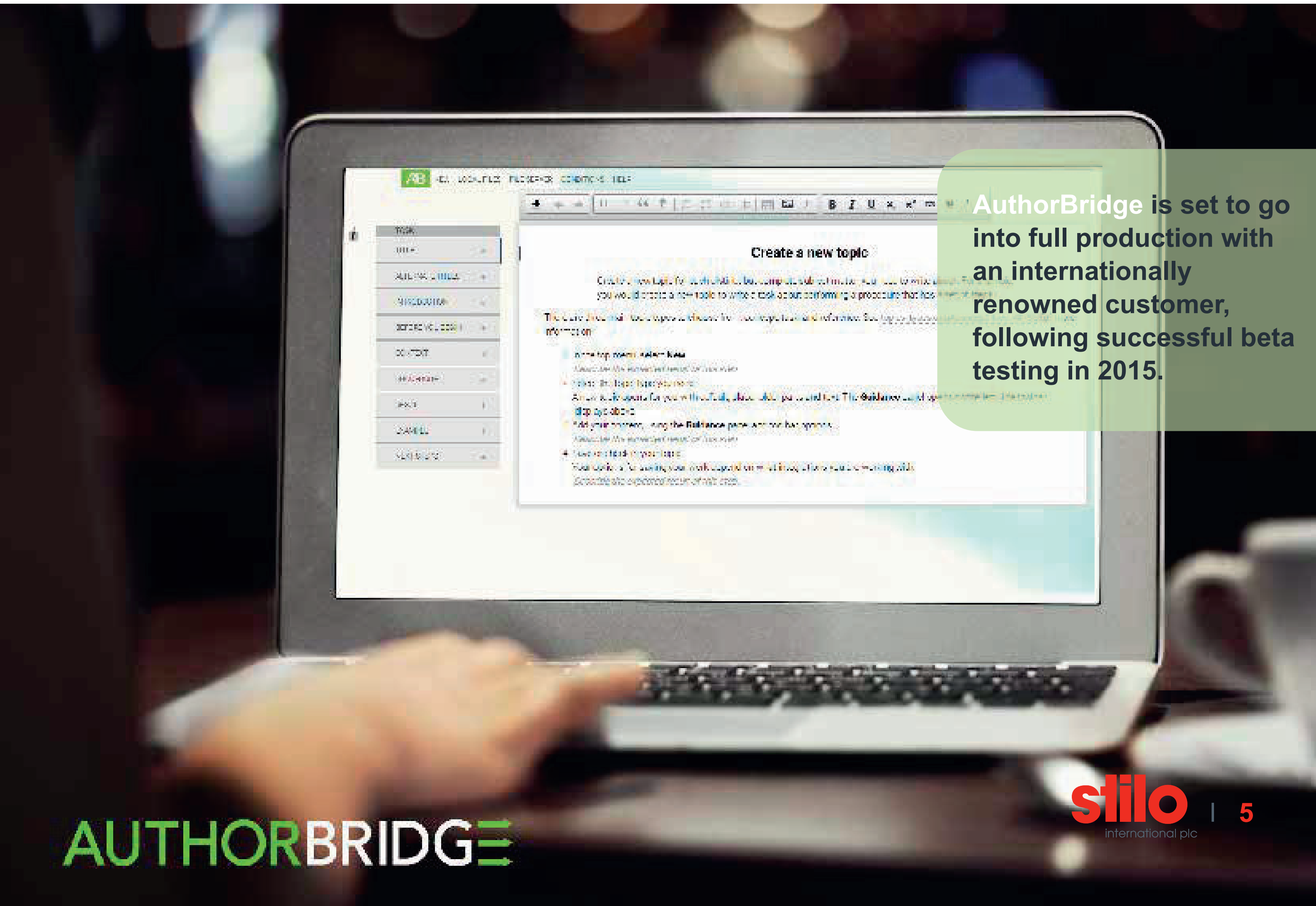
Using Migrate, our customers have converted over one million pages of content to the DITA format.

AuthorBridge

AuthorBridge is a cloud XML authoring service, designed for occasional content contributors who have no knowledge of DITA or its complexities.

It is targeted at large enterprises that are looking to extend the use of DITA across different business units and potentially support thousands of users. We have made considerable progress with the development of AuthorBridge in 2015, working closely with an internationally renowned customer that has helped guide our technical efforts. Following successful beta testing, AuthorBridge is now scheduled to be deployed by them in full production in the coming months.

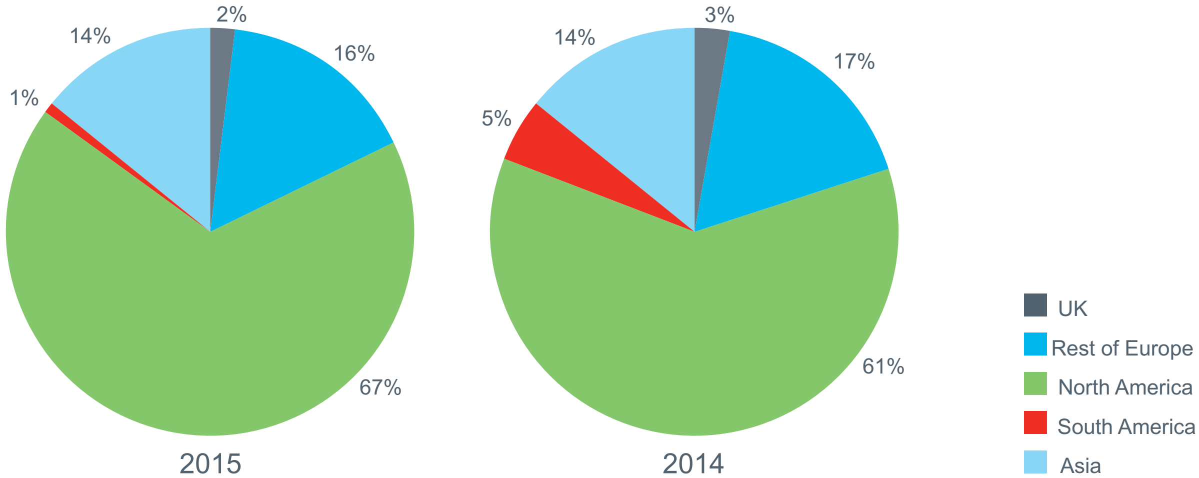
In the meantime, we continue to invest significantly in the continuing development of AuthorBridge as we look to address the requirements of the wider market, and to proceed with a more general controlled release in 2016.



AuthorBridge is set to go into full production with an internationally renowned customer, following successful beta testing in 2015.

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 standard has been primarily led by corporations with their headquarters based in the USA. It is anticipated that adoption of DITA will spread internationally in the future.

TECHNICAL EXPERTISE

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

OmniMark is used in the development of Migrate, and both Migrate and OmniMark technologies are utilised 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 2015, there were 17 permanent employees in the Company, complemented by the use of contractors. In 2016 we will be making additional investments in the recruitment of development personnel, but it is not anticipated that we will be growing headcount significantly, as we look to contain our costs and scale the business through technology sales.

FINANCIAL RESULTS

The results for the year ended 31 December 2015 have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the European Union.

In 2015, the results for Stilo show an increase in EBITDA to £272,000 (2014: £108,000). Pre-tax profits were £261,000 (2014: £95,000).

Total sales revenues for the year increased by 20% to £1,517,000 (2014: £1,262,000). The increase in revenue was due primarily to a growth of 61% in Stilo Migrate sales. The Company continued to benefit from recurring revenue from software maintenance contracts of £713,000 (2014: £710,000) which represents 47% (2014: 56%) of annual sales revenue. Revenue from OmniMark software remained broadly level compared to the previous year.

The Company continues to maintain careful control over operating costs. Operating expenses, excluding capitalised development costs, increased to £1,250,000 (2014: £1,160,000), due primarily to the recruitment of additional staff.

Investment in R & D continued in 2015, with total expenditure for the year of £419,000 (2014: £403,000). Of this expenditure, £125,000 (2014: £114,000) relating to the development of AuthorBridge has been capitalised. As a result of this investment, Stilo continues to benefit from research and development tax credits.

There was a cash balance of £1,318,000 as at 31 December 2015 (31 December 2014: £1,089,000), 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. Further investment in staff recruitment is planned for 2016, however, overall costs will continue to be carefully managed in order to maintain cash reserves at a satisfactory level.

DIVIDENDS

The Board recommends the payment of a Final Dividend for the year of 0.05 pence per Ordinary Share which, if approved at the AGM on 18 May, will be paid on 23 May 2016 to shareholders on the register on 22 April 2016. The shares will be marked ex-dividend on 21 April 2016. If approved, payment of the Final Dividend will bring the total dividends paid to shareholders for the year to 0.08 pence per Ordinary Share, representing an annualised increase of 33% over 2014.

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 7.

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 28. 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 34. Debtor days at 31 December 2015 were 54 days (2014: 47 days). Whilst outside of standard credit terms, the directors consider this to be reasonable. Overdue amounts are closely monitored.

Human resources KPI's include 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.

Costs and overheads are closely controlled, including monitoring variable costs such as marketing, travel and 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.

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

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

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

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

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

Signed on behalf of the Board

Richard Alsept, Company Secretary
15 March 2016

DIRECTOR'S REPORT

The Directors present their report together with the audited accounts of the Group and the Company for the year ended 31 December 2015.

RESULTS AND DIVIDENDS

The Group profit for the year after taxation was £309,000 (2014: profit of £153,000). During the year an interim dividend of £33,000 (0.03 pence per Ordinary Share) was declared and paid (2014: interim dividend £33,000). A final dividend for the year of £56,000 (0.05 pence per Ordinary Share) has been proposed by the Directors for approval at the AGM (2014: £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 increasing 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, and under Directors and Officers on page 12.

SUBSTANTIAL SHAREHOLDINGS

At 8th March 2016 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	13,864,800	12.33%
HSDL Nominees Limited	6,100,000	5.43%
Mossland Limited	4,100,000	3.65%
S J Buswell	4,084,416	3.63%
R G Millington	3,475,000	3.09%
S C Healey	3,384,416	3.01%

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.

RESEARCH AND DEVELOPMENT

Research and development expenditure for the year, excluding costs capitalised which amounted to £125,000 (2014: £114,000), was £294,000 (2014: £289,000). 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 co-operates with relevant authorities to ensure that all statutory environmental requirements are complied with.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

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

AUDITOR

RSM UK Audit LLP (formerly 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

15 March 2016

REMUNERATION COMMITTEE 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 remuneration is set out in note 3.

DIRECTORS' INTERESTS

The interests of the Directors at 31 December 2015 in the shares of the Company were as follows:

	31 December 2015 Number of Ordinary Shares	1 January 2015 Number of Ordinary Shares
Executive		
L Burnham	7,600,000	5,000,000
Non-executive		
D Ashman	20,202,000	12,200,000

SHARE OPTION SCHEME

At 31 December 2015 the following share options were held by Directors:

	1 January 2015	Number Granted in the year	Number Exercised in the year	31 December 2015	Exercise price	Date from which exercisable	Expiry Date
L Burnham	2,600,000	–	(2,600,000)	–	1.5p	24 December 2008	No expiry
L Burnham	–	6,600.000	–	6,600,000	3.75p	15 September 2017	15 September 2025
R Alsept	700,000	–	–	700,000	2.25p	20 April 2013	20 April 2021

The market price of the Company's shares at the end of the financial year was 4.62p and the range of the market prices during the year ended 31 December 2015 was between 2.13p and 5.75p.

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

15 March 2016

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 £11million to £40+ million over a four year period.

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

Les holds a Joint Honours Degree in Mathematics/Operational Research obtained from Leeds University and attended the Cranfield School of Management.

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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207 Richmond Road
Cardiff
CF2 3XT

INDEPENDENT AUDITOR
RSM UK Audit LLP
25 Farringdon Street
London
EC4A 4AB

SOLICITORS
Burges Salmon
1 Glass Wharf
Bristol
BS2 0ZX

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

BROKER
SI Capital Limited
46 Bridge Street
Godalming
GU7 1HL

REGISTRAR
Capita Asset Services
40 Dukes Place
London
EC3A 7NH

COMPLIANCE

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

DIRECTORS

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

The Board consists of 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 listed, and their biographies shown 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 43. 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 to 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 2015 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 **RSM UK AUDIT LLP**, *Statutory Auditor*
Chartered Accountants
25 Farringdon Street, London EC4A 4AB
15 March 2016

GROUP INCOME STATEMENT

for the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Continuing operations			
Revenue	2	**1,517**	1,262
Cost of sales		**(12)**	(13)
Gross profit		**1,505**	1,249
Operating expenses		**(1,246)**	(1,152)
Amortisation of intangible assets		**(4)**	(8)
Operating profit	4	**255**	89
Finance Income	6	**6**	6
Profit before tax		**261**	95
Income tax	7	**48**	58
Profit for the year attributable to the equity shareholders of the parent company		**309**	153
Earnings per share attributable to equity shareholders of the parent:			
Earnings per share – basic	8	**0.28p**	0.14p
Earnings per share – diluted	8	**0.28p**	0.13p
Dividends paid per share	29	**0.06p**	0.06p

GROUP STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2015

	2015 £'000	2014 £'000
Profit for the year	**309**	153
Other comprehensive income		
Items that may subsequently be reclassified to profit and loss		
Foreign currency translation differences	**(109)**	(30)
Other comprehensive income for the year, net of tax	**(109)**	(30)
Total comprehensive income for the year	**200**	123

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

GROUP AND PARENT STATEMENT OF FINANCIAL POSITION
as at December 2015

	Note	Group 2015 £'000	Group 2014 £'000	Company 2015 £'000	Company 2014 £'000
Non-current assets					
Goodwill	*9*	**1,660**	1,674	**–**	–
Other intangible assets	*10*	**225**	118	**–**	–
Investments	*27*	**–**	–	**1,283**	1,094
Plant and equipment	*11*	**19**	20	**–**	–
Deferred tax asset	*12*	**50**	50	**–**	–
		1,954	1,862	**1,283**	1,094
Current assets					
Trade and other receivables	*13*	**203**	272	**–**	99
Income tax asset		**49**	59	**–**	–
Cash and cash equivalents	*15*	**1,318**	1,089	**–**	–
		1,570	1,420	**–**	99
Total assets		**3,524**	3,282	**1,283**	1,193
Current liabilities					
Trade and other payables	*16*	**474**	453	**–**	–
Non-current liabilities					
Other payables	*17*	**28**	11	**–**	–
Total liabilities		**502**	464	**–**	–
Equity attributable to equity shareholders of the parent Company					
Called up share capital	*18*	**1,124**	1,098	**1,124**	1,098
Share premium		**13**	–	**13**	–
Merger reserve		**658**	658	**–**	–
Retained earnings		**1,227**	1,062	**146**	95
Total equity		**3,022**	2,818	**1,283**	1,193
Total equity and liabilities		**3,524**	3,282	**1,283**	1,193

The accounts on pages 16 to 43 were approved by the Board of Directors and authorised for issue on 15 March 2016 and signed on their behalf by:

Les Burnham
Chief Executive Officer

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

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 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					
Dividends paid	–	–	–	(66)	(66)
Shares cancelled	–	–	–	–	–
Total transactions with owners	–	–	–	(66)	(66)
Balance at 1 January 2015	1,098	–	658	1,062	2,818
Comprehensive income					
Profit for the financial year	–	–	–	309	309
Other comprehensive income					
Exchange adjustments – may recycle to profit and loss account	–	–	–	(109)	(109)
Total comprehensive income	–	–	–	200	200
Transactions with owners					
Share based transactions	–	–	–	31	31
Dividends paid	–	–	–	(66)	(66)
Shares issued	26	13	–	–	39
Total transactions with owners	26	13	–	(35)	4
At 31 December 2015	**1,124**	**13**	**658**	**1,227**	**3,022**

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 in 2013.

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

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 2014	1,098	–	140	1,238
Comprehensive income				
Profit for the financial year	–	–	21	21
Total comprehensive income	–	–	21	21
Transactions with owners				
Dividend paid	–	–	(66)	(66)
Total transactions with owners	–	–	(66)	(66)
At 1 January 2015	1,098	–	95	1,193
Comprehensive income				
Proft for the financial year	–	–	86	86
Total comprehensive income	–	–	86	86
Transactions with owners				
Share-based transactions	–	–	31	31
Shares issued	26	13	–	39
Dividend paid	–	–	(66)	(66)
Total transactions with owners	–	26	13	(35)
At 31 December 2015	**1,124**	**13**	**146**	**1,283**

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 in 2013.

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2015

	Note	2015 £'000	2015 £'000	2014 £'000	2014 £'000
Cash flows from operating activities					
Profit before taxation		**261**		95	
Adjustment for depreciation and amortisation		**17**		19	
Adjustment for investment income		**(6)**		(6)	
Adjustment for foreign exchange differences		**(81)**		(28)	
Adjustment for financial derivatives		**(26)**		24	
Adjustment for share-based payments		**31**		–	
Operating cash flows before movements in working capital		**196**		104	
Decrease in trade and other receivables		**69**		–	
Increase in trade and other payables		**64**		32	
Cash generated from operations			**329**		136
Tax paid			**(1)**		(1)
Tax credit received			**59**		55
Net cash generated from operating activities			**387**		190
Cash flows from investing activities					
Finance income			**6**		6
Development costs capitalised			**(125)**		(114)
Purchase of equipment			**(12)**		(12)
Net cash used in investing activities			**(131)**		(120)
Financing activities					
Dividends paid			**(66)**		(66)
Issue of ordinary share capital			**39**		–
Net cash used in financing activities			**(27)**		(66)
Net increase in cash and cash equivalents			**229**		4
Cash and cash equivalents at beginning of year			**1,089**		1,085
Cash and cash equivalents at end of year	*15*		**1,318**		1,089

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 2015

	2015		2014	
	£'000	**£'000**	£'000	£'000
Net cash inflow from operating activities				
Profit before taxation	**86**		21	
Operating cash flows before movements in working capital	**86**		21	
Decrease/(increase) in trade and other receivables	**99**		(99)	
Cash generated from operations		**185**		(78)
Acquisitions and disposals				
Loans (to)/from subsidiary companies	**(158)**		144	
Net cash (outflow)/inflow from acquisitions and disposals		**(158)**		144
Net cash inflow before management of liquid resources and financing		**27**		66
Financing activities				
Dividends paid		**(66)**		(66)
Issue of ordinary share capital		**39**		–
Net cash used in financing activities		**(27)**		(66)
Increase in cash and cash equivalents		**–**		–
Cash and cash equivalents at beginning of year		**–**		–
Cash and cash equivalents at end of year		**–**		–

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

1 ACCOUNTING POLICIES

(a) Basis of Preparation

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

These financial statements have been prepared in accordance with International Financial Reporting Standards (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 2015, 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. Future plans and cash flow forecasts prepared by management 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 continuing 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, other than those additional staff included in the plans for the period. These forecasts show that the Company has an adequate level of cash reserves to meet its operating liabilities as and when they fall due from existing sources. At least a 50% reduction in revenue levels (without any adjustment in the cost base in the business) would be required before the company would need to consider alternative sources of funding. Given that this kind of drop-off in revenues is considered by management to be highly unlikely to occur and they would be able to take compensating actions with regard to the Company's cost base, management have concluded that the current forecasts have adequate headroom to be able to conclude that the going concern basis remains appropriate.

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:

IFRS 15 Revenue from contracts with customers: dealing with the recognition of revenue from contracts and customers. EU endorsement is expected in the second quarter of 2016.

IFRS 9 Financial Instruments: The IASB issued IFRS 9 to include a logical model for classification and measurement, a single forward looking expected loss impairment model, and a substantially reformed approach to hedge accounting. EU endorsement is expected in the second half of 2016.

IFRS 16 Leases: Introduces a single lessee accounting model, and eliminates the previous distinction between an operating lease and a finance lease. The date for EU endorsement has not yet been published.

There have also been recent amendments to existing standards: IAS 16 Property Plant & Equipment and IAS 38 Intangible Assets that gives updated guidance on the classification of property plant and equipment and clarification of methods of amortisation and depreciation of all assets.

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company is exposed or has the right to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

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

(c) Revenue recognition

Revenue represents the fair value of goods and services supplied and is stated net of value added tax. Revenues consist of cloud services, software and software maintenance, and consulting. Consulting services revenue represents the fair value of contracts completed during the period, as well as the estimated fair value of partially completed contracts at 31 December 2015. 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 directly attributable developments cost of the asset can be measured reliably.

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

Where the criteria are not met, development expenditure is recognised as an expense in the income statement in the period in which it is incurred.

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

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 £125,000 (2014: £114,000) of development costs met the criteria for recognition as intangible assets as defined in IAS 38 on a project initiated during 2014. The recognition criteria on which this judgement was made are given in more detail in the Intangible Assets accounting policy. The capitalised development costs are being amortised over a period which is considered by management to be the minimum economic useful life of the asset.

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 (2014: £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 (who are considered to be the Chief Operating Decision Maker under IFRS 8) review and use to make strategic decisions.

Analysis by geographical segment
At 31 December 2015, 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:

	2015			2014		
	Revenue by destination £'000	**Non-current Assets £'000**	**Capital Expenditure £'000**	Revenue by destination £'000	Non-current Assets £'000	Capital Expenditure £'000
United Kingdom	**31**	**55**	**1**	35	109	5
Rest of Europe	**232**	**–**	**–**	213	–	–
North America	**1,018**	**1,899**	**11**	773	1,753	7
South America	**17**	**–**	**–**	63	–	–
Asia	**219**	**–**	**–**	178	–	–
	1,517	**1,954**	**12**	1,262	1,862	12

Revenues of £183,000 (2014: £nil) which represent more than 10% of total revenues are derived from an individual external customer in North America and revenues of £207,000 (2014: £110,000) are derived from an individual external customer in Asia.

3 STAFF COSTS

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

	2015 £'000	2014 £'000
Wages and salaries	**765**	728
Social security costs	**83**	75
Pension contributions	**49**	61
Share-based payments	**31**	–
	928	864

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

	2015 No.	2014 No.
Research and development	**8**	7
Sales, marketing and customer support	**5**	5
Management and administration	**4**	4
	17	16

The number of persons employed at 31 December 2015 was 17 (2014: 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**	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Salary and fees	**132**	107	**36**	33
Pension contributions	**46**	58	–	–
Social security costs	**17**	12	**4**	3
Other benefits	**4**	5	**–**	–
	199	182	**40**	36

David Ashman receives no emoluments (2014: nil).

One director (2014: one) was accruing a benefit under a defined contribution scheme.

During the year, Les Burnham exercised a share option to purchase 2,600,000 shares at 1.5 pence per share. The mid market price of the shares at the date of exercise was 5.375 pence per share.

4 OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2015 £'000	2014 £'000
Depreciation of owned property, plant and equipment	**13**	11
Amortisation of intangible assets	**4**	8
Operating lease rentals		
– Land and buildings	**59**	64
– Other	**3**	3
Research and development	**294**	289
Auditor's remuneration		
– Audit fees – parent company and consolidation	**17**	17
– Audit fees – subsidiaries	**12**	12
– Audit related assurance services – parent company	**2**	2
– Taxation advisory services – parent company	**–**	–
(Gain)/loss on fair value of derivative financial instrument	**(26)**	24
Net foreign exchange loss/(gains) recognised in the income statement	**4**	(29)

5 OTHER (GAINS)/LOSSES

Financial assets at fair value through the income statement.

Foreign exchange forward contracts:

	2015 £'000	2014 £'000
Ineffectiveness on cash flow hedges	**–**	24

Other losses are included within operating expenses.

6 FINANCE INCOME

	2015 £'000	2014 £'000
Interest on short-term deposits	**6**	6

7 INCOME TAX

(a) Current year tax (credit)

	2015 £'000	2014 £'000
Taxation charge	**1**	1
Overseas taxation credit	**(49)**	(59)
	(48)	(58)

(b) Tax reconciliation

	2015 £'000	2014 £'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	**261**	95
Tax at 20% (2014: 20%)	**52**	19
Effects of:		
Expenses not deductible for tax purposes	**2**	2
Deduction for gain on share options	**(20)**	–
Tax losses (utilised)	**(33)**	(20)
Research and development tax credit (including overseas)	**(49)**	(59)
Tax (credit) for the year	**(48)**	(58)

There are tax losses of approximately £5.1 million (2014: £5.1 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 £309,000 (2014: profit of £153,000), and the weighted average number of ordinary shares in issue during the year of 110,566,803 (2014: 109,808,470). The fully diluted earnings per share in 2015 takes account of outstanding options which results in a weighted average number of shares in issue during the year of 110,951,117 (2014: 113,383,710).

9 GOODWILL – GROUP

Goodwill

	£'000
Cost	
At 1 January 2014	1,676
Exchange rate translation difference for assets held in foreign currency	(2)
At 1 January 2015	1,674
Exchange rate translation difference for assets held in foreign currency	(14)
At 31 December 2015	**1,660**
Accumulated impairment	
At 1 January 2014	–
Impairment loss	–
At 1 January 2015	–
Impairment loss	–
At 31 December 2015	**–**
Closing carrying value	
At 31 December 2015	**1,660**
At 31 December 2014	**1,674**
At 31 December 2013	**1,676**

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.

The recoverable amount of the goodwill has been determined by value in use calculations, using pre-tax cash flow projections based on financial budgets approved by management covering a five year period. Cash flows arising from OmniMark software maintenance are extended beyond the five year period as these revenues are annual, recurring revenues which are expected to continue indefinitely. Cash flows beyond the five year period are extrapolated using a growth rate of 2% (2014: 2%). The growth rate does not exceed the long-term average growth rate for the industry. A discount rate of 10% (2014: 10%) has been assumed. The key assumptions which have been used within the value in use calculations are consistent with the forecasts and budgets used by management, and there is no reasonable change to a key assumption that would cause the recoverable amount to equal or be less than the carrying amount.

10 OTHER INTANGIBLE ASSETS – GROUP

	Contracts and Tools £'000	Development Costs £'000	Total £'000
Cost			
At 1 January 2014	148	237	385
Additions	–	114	114
At 1 January 2015	148	351	499
Additions	–	125	125
Exchange rate translation difference for assets held in foreign currency	–	(14)	(14)
At 31 December 2015	**148**	**462**	**610**
Accumulated amortisation			
At 1 January 2014	148	225	373
Amortisation charge for the year	–	8	8
At 1 January 2015	148	233	381
Amortisation charge for the year	–	4	4
At 31 December 2015	**148**	**237**	**385**
Closing carrying value			
At 31 December 2015	**–**	**225**	**225**
At 31 December 2014	**–**	**118**	**118**
At 31 December 2013	**–**	**12**	**12**

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

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

Sales of 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 2015. Licence sales are expected to commence in 2016. No amortisation has been charged in 2015 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 2014	18	152	62	232
Additions	3	9	–	12
Disposals	–	(1)	–	(1)
At 1 January 2015	21	160	62	243
Additions	1	11	–	12
Disposals	–	(2)	–	(2)
At 31 December 2015	**22**	**169**	**62**	**253**
Depreciation				
At 1 January 2014	13	139	61	213
Charge for the year	11	2	9	–
Disposals	_	(1)	–	(1)
At 1 January 2015	15	147	61	223
Charge for the year	2	10	1	13
Disposals	–	(2)	–	(2)
At 31 December 2015	**17**	**155**	**62**	**234**
Net book value				
At 31 December 2015	**5**	**14**	**–**	**19**
At 31 December 2014	**6**	**13**	**1**	**20**
At 31 December 2013	**5**	**13**	**1**	**19**

The depreciation charge is included within operating expenses.

12 DEFERRED TAX – GROUP

Deferred tax assets comprise:

	2015 £'000	2014 £'000
At 1 January 2015	**50**	50
Unused tax losses recognised in the accounts	**–**	–
At 31 December 2015	**50**	50

At the balance sheet date, the Group has unused tax losses of approximately £5.1m (2014: £5.1m) available for offset against future profits. A deferred tax asset of £50,000 (2014: £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 2016 of £nil (2014: £nil).

13 TRADE AND OTHER RECEIVABLES – GROUP

		Group		Company
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Trade receivables	**161**	229	**–**	–
Intercompany receivable	–	–	**–**	99
Prepayments	**36**	38	**–**	–
VAT receivable	**6**	5	**–**	–
	203	272	**–**	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 £161,000 (2014: £229,000). A bad debt reserve of £nil (2014: £nil) is provided against impaired debts. The value of debts which were past due but not impaired at year end was £16,000 (2014: £10,000). The ageing of these debts is as follows:

	2015 £'000	2014 £'000
Up to 1 month overdue	**15**	6
1 to 2 months overdue	**–**	1
More than 2 months overdue	**1**	3
	16	10

Trade receivables denominated in US dollars at year end were £130,000 (2014: £168,000), trade receivables denominated in Euro's were £31,000 (2014: £45,000), with no receivables denominated in sterling (2014: nil).

The trade receivable for the company at 31 December 2014 was owed by Stilo Corporation and is all denominated in US dollars.

14 OTHER FINANCIAL LIABILITIES: DERIVATIVE FINANCIAL INSTRUMENTS – GROUP

	2015 £'000	2014 £'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)
	–	(26)

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:

	2015 £'000	2014 £'000
Canadian Dollars	**–**	367
US Dollars	**–**	186
Euros	**–**	–

The prior year provision for changes in the fair value of non-hedging currency derivatives amounting to £26,000 has been used in the year (2014: £24,000 charge). Fair values are measured at the end of the reporting period using observable market data.

There was no liability arising at the year end on such contracts (2014: £26,000). In 2014 the provision is included in Other creditors and accrued expenditure. 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:

	2015 £'000	2014 £'000
Cash on hand and balances with banks	**602**	280
Short-term deposits	**716**	809
	1,318	1,089

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:

	2015 £'000	2014 £'000
Cash on hand and balances with banks	–	–

The carrying amount of these assets approximates their fair value.

16 TRADE AND OTHER PAYABLES – GROUP

	2015 £'000	2014 £'000
Trade payables	20	25
Other creditors and accrued expenditure	100	92
Deferred income	345	328
Other taxation and social security	9	8
	474	453

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 2015 was 17 days (2014: 27 days).

Trade payables denominated in Euros at year end were £nil (2014: £4,000), in Canadian dollars £2,000 (2014: £2,000) and in US dollars £nil (2014: £1,000).

17 NON-CURRENT LIABILITIES – OTHER PAYABLES – GROUP

	2015 £'000	2014 £'000
Deferred income	28	11

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

18 SHARE CAPITAL – GROUP AND PARENT

	2015 £'000	2014 £'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		
112,408,470 (2014: 109,808,470) Ordinary shares of 1p each	1,124	1,098
452,056,230 (2014: 452,056,230) Deferred shares of 1p each	–	–
	1,124	1,098

2,600,000 shares were issued during the year at a price of 1.5p per share, following the exercise of a share option.

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 2015	Granted	Exercised/ Cancelled	**As at 31 December 2015**	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	-	(50,000)	**2,338,000**	2.25p
– from 23 April 2016 to 23 April 2024	200,000	–	(150,000)	**50,000**	3.38p
– from 15 September 2017 to 14 September 2025	–	2,600,000	–	**2,600,000**	3.75p
EMI Scheme:					
– from 24 December 2008 (no expiry date)	2,600,000	–	(2,600,000)	**–**	1.5p
– from 15 September 2017 to 14 September 2025	–	6,600,000	–	**6,600,000**	3.75p
– 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	–	(50,000)	**1,200,000**	2.25p
– from 25 September 2016 to 25 September 2024	50,000	–	–	**50,000**	3.0p
	8,362,000	9,200,000	(2,850,000)	**14,712,000**	

An expense of £31,000 was recognised from share based transactions in the year (2014: £nil).

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. Furthermore, options are normally forfeited if the employee leaves the Group before the options vest.

	2015 Options	**2015** Weighted average exercise price	2014 Options	2014 Weighted average exercise price
Outstanding at 1 January	8,362,000	1.79p	8,112,000	1.79p
Granted during the year	9,200,000	3.75p	250,000	3.30p
Forfeited during the year	(250,000)	3.02p	–	–
Exercised during the year	(2,600,000)	1.5p	–	–
Expired during the year	–	–	–	–
Outstanding at 31 December	**14,712,000**	**3.07p**	8,362,000	1.83p
Exercisable at 31 December	**5,412,000**	**1.93p**	8,112,000	1.79p

A total of 2,600,000 shares were issued during the year following the exercise of a share option at 1.5p per share. The options outstanding at 31 December 2015 had a weighted average exercise price of 3.07p, and a weighted average remaining contractual life of 7.88 years.

The inputs into the Black Scholes model are as follows:

	2015	2014
Weighted average share price	**3.75p**	3.30p
Weighted average exercise price	**3.75p**	10p
Expected volatility	**37%**	37%
Expected life	**10 years**	9 years
Risk free rate	**1%**	1%
Expected dividends	**2%**	2%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 5 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 £31,000 (2014: £nil) 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 2015 is £49,000 (2014: £61,000).

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 2015, the minimum lease payments under non-cancellable operating lease rentals are in aggregate as follows:

	2015 Land and buildings £'000	**2015 Other £'000**	2014 Land and buildings £'000	2014 Other £'000
Payable:				
– within 1 year	**37**	**2**	52	3
– within 1-5 years	**–**	**–**	37	1
	37	**2**	89	4

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 £0.7m (2014: £0.8m) 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 2015 or 2014.

Maturity of financial assets and liabilities
The maturity profile of the Group's financial liabilities as at 31 December 2015 can be determined from Notes 16 and 17.

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 2015 or 31 December 2014.

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 15% 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 34% of the Group's cash is held in US dollars, and 26% 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 2015 if the US dollar had strengthened/weakened by 10% against the Canadian dollar, post-tax profit would have been £36,000 higher/lower as a result of the foreign exchange gains/losses on translation of US dollar-denominated cash and accounts receivable.

In 2015 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, £211,000 (2014: £195,000).

Management fees charged by Stilo Technology Limited to Stilo International plc, £125,000 (2014: £175,000).

Fee for use of IP charged by Stilo Technology Limited to Stilo Corporation, £185,000 (2014: £171,000).

Cost recharge from Stilo Corp to Stilo Technology Limited, £9,000 (2014: £9,000).

At 31 December 2015, the following balances were owed by Group companies:

Owed by Stilo Technology Limited to Stilo International plc, £4,248,000 (2014: £4,090,000) which is included within investments within Stilo International plc after provisions of £4,090,000 (2014: £4,090,000).

Loan owed by Stilo Corporation to Stilo International plc, £866,000 (2014: £866,000) which is included within investments within Stilo International plc after provisions of £595,000 (2014: £595,000).

Owed by Stilo Corporation to Stilo International plc in respect of management fees £nil (2014: £99,000).

Owed by Stilo Corporation to Stilo Technology Limited for use of IP £nil (2014: £87,000).

Owed by Stilo Technology Limited to Stilo Corporation, £57,000 (2014: £48,000).

Dividends paid to directors were:

David Ashman £10,622 (2014: £7,080)

Les Burnham £3,000 (2014: £3,000)

26 BANK GUARANTEES

There were no bank guarantees given by the Company at 31 December 2015 or at 31 December 2014.

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 2014	1,192	5,100	6,292
Additions/(disposals)	–	(144)	(144)
At 1 January 2015	**1,192**	**4,956**	**6,148**
Additions/(disposals)	31	158	189
At 31 December 2015	1,223	5,114	6,337
Provisions:			
At 1 January 2014	369	4,685	5,054
Provision/(release) in the year	–	–	–
At 1 January 2015	369	4,685	5,054
Provision/(release) in the year	–	–	–
At 31 December 2015	**369**	**4,685**	**5,054**
Net book value:			
At 1 January 2014	823	415	1,238
At 1 January 2015	823	271	1,094
At 31 December 2015	**854**	**429**	**1,283**

The net book value of investments is stated after impairment write-downs and provisions against loans and investments of £5,054,000 (2014: £5,054,000).

The reduction in investments in 2014 arose 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 £86,000 (2014: £21,000). 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 shares	**2015 £'000**	2014 £'000
Final paid (0.03 pence per share) (2014: 0.03 pence per share)	**33**	33
Interim paid (0.03 pence per share) (2014: 0.03 pence per share)	**33**	33
	66	66

The proposed final dividend for the year of 0.05 pence per share (2014: 0.03 pence per share) is not included as a liability in the financial statements as it is subject to shareholder approval.

Notice is hereby given that the Annual General Meeting of Stilo International plc (the "Company") will be held at the offices of RSM, 25 Farringdon Street, London EC4A 4AB on 18 May 2016 at 11.30am 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 2015, together with the Directors' report and Auditors report thereon.

Final Dividend
Resolution 2: To declare a final dividend of 0.05pence per ordinary share for the financial year ended 31 December 2015.

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

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

SPECIAL BUSINESS

To consider as special business and, if thought fit, pass the following resolutions 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 £374,695; 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 £749,390 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; andterritory 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 £112,408 being approximately (and not more than) 10% of the Company's issued ordinary share capital (excluding treasury shares) as at the date of the Notice of this meeting.

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

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

(a) the maximum number of ordinary shares of 1 penny nominal value hereby authorised to be purchased is 11,240,847;

(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 18 August 2017 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

15 March 2016

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 Asset Services. *If you have any questions, please call Capita Asset Services on 0871 664 0300. Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. We are open between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales.*

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 2015.

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 2015 of 0.05 pence per ordinary share due and payable on 23 May 2016 to the shareholders on the register at close of business on 22 April 2016. 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, Richard Alsept having been last re-elected in 2013 is retiring and offering himself for re-election.

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

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

Paragraph (a) of resolution 4 will allow the Directors to allot new shares or grant rights up to an aggregate nominal value of £374,695, 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 £749,390 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 £112,408 (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 2017 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 18 August 2017. 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 16 March 2016) 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 18 MAY 2016

I/We ____________________

of ____________________

(Please complete in block capitals)

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

____

as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the Annual General Meeting of the company to be held at the offices of RSM, 25 Farringdon Street, London EC4A 4AB on Wednesday, 18 May 2016 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 2015			
2 To approve the final dividend for the year ended 31 December 2015			
3 To reappoint Richard Alsept as a Director			
4 To reappoint RSM UK Audit LLP as Auditors to the Company and to authorise the Directors to fix their remuneration			
Special Business			
Ordinary Resolution			
5 To authorise the Directors to allot relevant securities			
Special Resolutions			
6 To authorise the Directors to allot equity securities and to disapply statutory pre-emption rights in relation to the issue of certain equity securities			
7 To authorise the Directors to purchase ordinary shares			

Names of joint holders (if any) ____________________

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

Signature ____________________ Dated ____________________ 2016

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 indicated 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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