# STANELCO PLC

## UNAUDITED INTERIM CONSOLIDATED ACCOUNTS

for the six months ended 30 June 2007

# Contents



# Officers

| | | |
|---|---|---|
| **Executive Directors:** | Paul Mines | *Chief Executive* |
| | Clive Warner | *Finance Director* |
| **Non-executive Directors:** | John Standen | *Chairman* |
| | Elizabeth Filkin | *Senior Independent Director* |
| **Company Secretary:** | Robert Duggan | |
| **Registered office:** | Starpol Technology Centre<br>North Road<br>Marchwood<br>Southampton<br>Hampshire<br>SO40 4BL | |
| **Company registration No:** | 1873702 (England and Wales) | |

# Chairman's statement

## Financial performance

Group revenues increased from £2.6m to £3.9m for the period ended 30 June 2007 compared with the six months ended 30 April 2006.

This increase is due to sales of biodegradable resin at the Group's Biotec subsidiary which have grown by 28.6 per cent., driven by increasing sales to SPhere.

The Group has taken measures to reduce its costs and to reorganise internally in order to focus on growing its sales. The headcount at its headquarters has halved since last year and running costs have reduced accordingly.

The Group made a loss before exceptional items of £1.7m compared with a loss of £2.3m for the six months to 30 April 2006.

## Business management

The six months to 30 June 2007 have seen significant re-evaluation of the Stanelco business activities by the Board.

Building on the preliminary review of the business operations of the Company announced on 29 May, Paul Mines, the CEO, and his team have continued their rigorous examination of where value lies in each of the business areas.

This has resulted in changes to the Group's approach, organisation and structure that are summarised below. Whilst some conclusions can now be drawn about strategic direction, the review has also identified areas where further analysis and decision making is required by the Board.

Considering each of the business areas individually:

## Biotec

The Biotec subsidiary at Emmerich in Germany is a 50/50 Joint Venture with SPhere S.A. Stanelco holds a "Golden Share" in this arrangement that is due to expire on 31 December 2009.

Biotec has seen considerable change to its operations in the first half with £1.3m investment in new production capacity. Technical commissioning is still to be completed but the effective capacity is now 7,500 tonnes per annum.

The Board is monitoring patent challenges lodged against some of Biotec's products and continues, with SPhere, to evaluate the significance of these challenges.

# Chairman's statement continued

### Stanelco BioPlastics

A single Stanelco BioPlastics operating unit has been established which incorporates Biotec, the global sales function for BioPlastic resins and the Aquasol products and technologies.

BioPlastic products formerly sold under the Starpol brand are now being marketed as BioPlast products in line with Biotec and SPhere branding.

The European sales team has been strengthened with the addition of an experienced sales consultant in the markets of Continental Europe.

A substantial internal reorganisation has taken place within the UK operations with some job losses and significant changes in responsibilities and objectives.

However, it is clear to the Board that a number of obstacles still remain to achieving sustainable sales growth from the BioPlastics business. These are being addressed by your Board and further updates will be provided in due course.

### Aquasol

The Aquasol products and technologies are being developed and marketed within Stanelco BioPlastics.

Following a review of the Aquasol patent portfolio by PricewaterhouseCoopers and subsequent analysis and market testing by the Group, the main areas of focus for future development have been identified.

### Stanelco RF applications

The radio frequency applications business remains robust with some areas identified as having good potential growth prospects. Sales in the first six months of £0.5m were maintained at the same level as the corresponding period last year.

To develop this business we have recruited a General Manager who will have responsibility for leading the business, identifying new areas for development and growth, and creating a clearly defined path forward.

# Chairman's statement continued

### Assets and cash

We have also reviewed our intangible assets and goodwill. Since there has been no further progress in developing a sales stream from our Greenseal technology, it has been decided to fully impair this intangible asset resulting in an exceptional charge of £0.5m. Other intangible assets have also been impaired totalling £0.2m. Furthermore, a review of the patent portfolio in the Aquasol subsidiary has determined that an impairment charge of £1.6m against the £2.1m goodwill held on the Group's balance sheet is required. The Group also made a £0.3m profit on disposal of certain assets of Adept.

The Group started the period with cash balances of £12.9m. During the period it released £3.2m in respect of the final stage payment for the Biotec acquisition, having received £1.6m from joint owner SPhere. £1.4m of the funds were held in escrow at 30 June 2007 and used to settle the balance of the liability after the period end. Biotec obtained £1.3m of asset finance and the balance of funding was used to fund the working capital of the Group. The Group closed the period with cash balances of £9.7m.

Shareholders' funds reduced by £3.5m to £19.6m in the six month period.

### Future outlook

Our CEO, together with his team, have put considerable efforts into identifying the areas we must focus on to deliver shareholder value and these areas must be given further support over the next two years to deliver tangible results. We remain encouraged by market trends and customer interest in the Company's RF applications and BioPlastic business areas.

The outlook for the second half remains consistent with the trading statement released on 29 May 2007. The Biotec division remained the core source of the Group's sales for the period and is subject to some variability as this market develops.

Generating sales growth in the BioPlastics business remains the single most important focus for the Group and rests on matching product capability and price with the growing but as yet incohesive demand for sustainable plastics.

**John Standen**
*Chairman*

10 September 2007

# Condensed consolidated income statement

FOR THE SIX MONTHS ENDED 30 JUNE 2007

| | Note | **Unaudited Six months ended 30 June 2007 £'000** | Unaudited Six months ended 30 April 2006 £'000 | Audited Fourteen months ended 31 December 2006 £'000 |
|---|---|---|---|---|
| **Revenue** | | **3,868** | 2,620 | 6,670 |
| Cost of sales | | **(2,709)** | (1,539) | (4,668) |
| Gross profit | | **1,159** | 1,081 | 2,002 |
| Distribution costs | | **(69)** | (87) | (220) |
| Administrative expenses | | **(2,793)** | (3,331) | (8,201) |
| **Loss from operations before exceptional items** | | **(1,703)** | (2,337) | (6,419) |
| Exceptional items | 3 | **(2,006)** | — | (8,416) |
| **Loss from operations** | | **(3,709)** | (2,337) | (14,835) |
| Investment revenue | | **289** | 39 | 134 |
| Finance costs | | **(55)** | (34) | (163) |
| **Loss before tax** | | **(3,475)** | (2,332) | (14,864) |
| Tax | | **—** | — | 446 |
| **Loss for the period** | | **(3,475)** | (2,332) | (14,418) |
| Attributable to: | | | | |
| Equity holders of the parent | | **(3,366)** | (2,341) | (14,289) |
| Minority interest | | **(109)** | 9 | (129) |
| **Retained for the period** | | **(3,475)** | (2,332) | (14,418) |
| **Earnings per share** | | | | |
| Basic and diluted loss per share – pence | 1 | **(0.117)** | (0.249) | (1.179) |

# Condensed consolidated balance sheet

AS AT 30 JUNE 2007

| | | Unaudited at 30 June 2007 | | Audited at 31 October 2006 | |
|---|---|---|---|---|---|
| | Note | £'000 | £'000 | £'000 | £'000 |
| **Non-current assets** | | | | | |
| Goodwill | | 12,484 | | 14,067 | |
| Other intangible assets | | 206 | | 979 | |
| Property, plant and equipment | | 4,296 | | 4,018 | |
| | | | 16,986 | | 19,064 |
| **Current assets** | | | | | |
| Inventories | | 3,480 | | 1,854 | |
| Trade and other receivables | | 1,931 | | 1,152 | |
| Amounts due on part disposal of subsidiary | | — | | 1,597 | |
| Funds held in escrow | 4 | 1,371 | | — | |
| Corporation tax | | 439 | | 439 | |
| Cash and cash equivalents | | 9,680 | | 12,916 | |
| | | | 16,901 | | 17,958 |
| **Total assets** | | | 33,887 | | 37,022 |
| **Current liabilities** | | | | | |
| Trade and other payables | | 2,086 | | 1,479 | |
| Amounts due to third party in respect of purchase of subsidiary | 4 | 1,371 | | 3,194 | |
| Promissory notes | | 5,218 | | 5,205 | |
| Obligations under finance lease | | 253 | | 40 | |
| Bank overdrafts and loans | | — | | 5 | |
| Short term provisions | | 607 | | 857 | |
| | | | 9,535 | | 10,780 |
| **Non-current liabilities** | | | | | |
| Obligations under finance lease | | 1,014 | | 27 | |
| | | | 1,014 | | 27 |
| **Total liabilities** | | | 10,549 | | 10,807 |
| **Net assets** | | | 23,338 | | 26,215 |

# Condensed consolidated balance sheet continued

AS AT 30 JUNE 2007

| | **Unaudited at 30 June 2007 £'000** | Audited at 31 December 2006 £'000 |
|---|---|---|
| **Equity** | | |
| Share capital | **3,012** | 2,978 |
| Share premium account | **38,207** | 37,932 |
| Shares to be issued | **487** | 800 |
| Share options reserve | **904** | 1,016 |
| Hedging and translation reserves | **231** | 243 |
| Retained losses | **(23,194)** | (19,826) |
| **Equity attributable to equity holders of the parent** | **19,647** | 23,143 |
| Minority interest | **3,691** | 3,072 |
| **Total equity** | **23,338** | 26,215 |

The Interim Accounts were approved by the Board of Directors and authorised for issue on 10 September 2007.

They were signed on behalf of the Board of Directors by:

Paul Mines *(Chief Executive Officer)*

Clive Warner *(Finance Director)*

# Condensed consolidated statement of changes in equity

FOR THE SIX MONTHS ENDED 30 JUNE 2007

| | Share capital £'000 | Share premium account £'000 | Shares to be issued £'000 | Share options reserve £'000 | Hedging and translation reserves £'000 | Retained losses £'000 | Attributable to equity holders of the parent £'000 | Minority interest £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 November 2005** | 929 | 19,899 | 1,050 | 393 | 19 | (5,600) | 16,690 | 2,498 | 19,188 |
| Exchange differences arising on translation of overseas operation | — | — | — | — | (196) | — | (196) | — | (196) |
| Net income recognised directly in equity | — | — | — | — | (196) | — | (196) | — | (196) |
| Loss for the period | — | — | — | — | — | (2,341) | (2,341) | 8 | (2,333) |
| **Total recognised income and expense for the period** | — | — | — | — | (196) | (2,341) | (2,537) | 8 | (2,529) |
| New share capital subscribed | 15 | 1,407 | — | — | — | — | 1,422 | — | 1,422 |
| Share option charges in period | — | — | — | 254 | — | — | 254 | — | 254 |
| Share options exercised in period | — | — | — | (41) | — | 41 | — | — | — |
| **Balance at 30 April 2006** | 944 | 21,306 | 1,050 | 606 | (177) | (7,900) | 15,829 | 2,506 | 18,335 |
| **Balance at 1 January 2007** | 2,978 | 37,932 | 800 | 1,016 | 243 | (19,826) | 23,143 | 3,072 | 26,215 |
| Exchange differences arising on translation of overseas operation | — | — | — | — | (12) | (2) | (14) | 47 | 33 |
| Net income recognised directly in equity | — | — | — | — | (12) | (2) | (14) | 47 | 33 |
| Loss for the period | — | — | — | — | — | (3,366) | (3,366) | (109) | (3,475) |
| **Total recognised income and expense for the period** | — | — | — | — | (12) | (3,368) | (3,380) | (62) | (3,442) |
| New share capital subscribed | 34 | 275 | — | — | — | — | 309 | — | 309 |
| Minority share of increase in subsidiaries capital reserve | — | — | — | — | — | — | — | 681 | 681 |
| Shares issued in respect of purchase of subsidiary | — | — | (313) | — | — | — | (313) | — | (313) |
| Share option (credit) in period | — | — | — | (112) | — | — | (112) | — | (112) |
| **Balance at 30 June 2007** | 3,012 | 38,207 | 487 | 904 | 231 | (23,194) | 19,647 | 3,691 | 23,338 |

# Condensed consolidated cash flow statement

FOR THE SIX MONTHS ENDED 30 JUNE 2007

| | Note | **Unaudited Six months ended 30 June 2007 £'000** | Unaudited Six months ended 30 April 2006 £'000 | Audited 14 month period ended 31 December 2006 £'000 |
|---|---|---|---|---|
| **Net cash outflow from operating activities** | **6** | **(3,568)** | (3,551) | (6,926) |
| **Investing activities** | | | | |
| Interest received | | **289** | 39 | 134 |
| Proceeds on disposal of property, plant and equipment | | **565** | 7 | 34 |
| Investment in intangible assets | | **(7)** | (582) | (1,406) |
| Purchase of property, plant and equipment | | **(823)** | (1,262) | (2,067) |
| Purchase of Biotec Holdings GmbH | | **(1,823)** | — | (3,438) |
| Part disposal of Biotec Holdings GmbH | | **1,597** | — | 1,719 |
| **Net cash used in investing activities** | | **(202)** | (1,798) | (5,024) |
| **Financing activities** | | | | |
| Repayment of bank overdrafts and loan capital | | **(5)** | (14) | (132) |
| Repayment of obligations under finance lease | | **(100)** | (42) | (83) |
| Proceeds (costs) of issue of ordinary share capital | | **(4)** | 1,422 | 19,682 |
| Proceeds from minority share of increase in subsidiaries capital reserve | | **681** | — | 682 |
| Proceeds from finance lease | | **1,300** | 76 | 76 |
| Funds held in escrow | 4 | **(1,371)** | — | — |
| **Net cash from financing activities** | | **501** | 1,442 | 20,225 |
| **Net (decrease)/ increase in cash and cash equivalents** | | **(3,269)** | (3,907) | 8,275 |
| **Cash and cash equivalents at beginning of period** | | **12,916** | 4,396 | 4,396 |
| Effect of foreign exchange rate changes | | **33** | (197) | 245 |
| **Cash and cash equivalents at end of period** | | **9,680** | 292 | 12,916 |

# Notes to the condensed consolidated interim accounts

FOR THE SIX MONTHS ENDED 30 JUNE 2007

## NOTES

### 1. Earnings per share from continuing operations

The basic loss per share is based on a loss after tax of £3,475,000 (*2006: £2,332,000*) and on the basic weighted average ordinary shares in issue during the period of 2,982,371,367 *(2006: 937,779,292)*.

### 2. Research and development expenditure

Research and development expenditure of £nil *(2006: £582,000)* has been incurred in the period. Of this expenditure £nil *(2006: £582,000*) has been capitalised as an intangible asset to be amortised against future revenues. Expenditure of this type is only capitalised where the Board is of the opinion that future revenues will exceed the costs incurred over the expected product life in accordance with International Accounting Standard 38.

### 3. Exceptional items

Exceptional items:

| | **Unaudited 6 months ended 30 June 2007 £'000** | Unaudited 6 months ended 30 April 2006 £'000 | Audited 14 month period ended 31 December 2006 £'000 |
|---|---|---|---|
| Impairment of other intangibles assets | **674** | — | 5,529 |
| Impairment of goodwill | **1,590** | — | — |
| Impairment of inventories | — | — | 1,416 |
| Bad debt provision | — | — | 66 |
| Provision for costs related to strategic review | — | — | 709 |
| Impairment of property, plant and equipment | — | — | 696 |
| (Profit) on disposal of property, plant and equipment | **(258)** | — | — |
| | **2,006** | — | 8,416 |

Further details on these items are explained in the Chairman's statement.

An impairment review on the goodwill arising on the consolidation of Aquasol has resulted in an impairment charge of £1,590,000 reducing the value of the goodwill to £500,000 for this asset. The basis of this goodwill valuation followed a review of the patent portfolio within the Aquasol subsidiary and was determined by assessing the estimated present value of foreseeable future revenues.

# Notes to the condensed consolidated interim accounts

FOR THE SIX MONTHS ENDED 30 JUNE 2007 *continued*

### 4. Post balance sheet

At 30 June 2007 funds of £1,371,000 where held in an escrow account in respect of the final payment to the vendors of Biotec Holdings GmbH. The corresponding liability of £1,371,000 is recorded in current liabilities. Following the end of the accounting period these funds have been released from escrow and the final amounts due for the acquisition of Biotec Holdings GmbH have been discharged.

### 5. Changes in accounting policies

The principal accounting policies of the Group have remained unchanged as in the Group's 2006 Annual Report and Financial Statements.

### 6. Notes to condensed consolidated cash flow statement

| | **Unaudited 6 months ended 30 June 2007 £'000** | Unaudited 6 months ended 30 April 2006 £'000 | Audited 14 month period ended 31 December 2006 £'000 |
|---|---|---|---|
| Loss from operations | **(3,709)** | (2,337) | (14,835) |
| Adjustment for: | | | |
| Amortisation and impairment of intangible fixed assets | **2,363** | 221 | 6,032 |
| Depreciation of property, plant and equipment | **234** | 246 | 1,276 |
| Share based payments | **(112)** | 254 | 686 |
| (Profit)/loss on disposal of property, plant and equipment | **(254)** | 6 | 49 |
| (Decrease) in provisions | **(250)** | (1,244) | (596) |
| Operating cash flows before movement in working capital | **(1,728)** | (2,854) | (7,388) |
| (Increase)/decrease in inventories | **(1,626)** | (540) | 750 |
| (Increase)/decrease in receivables | **(779)** | (28) | 218 |
| Increase/(decrease) in payables | **595** | (144) | (461) |
| Cash utilised by operations | **(3,538)** | (3,566) | (6,881) |
| Corporation tax received | **—** | 49 | 59 |
| Interest paid | **(30)** | (34) | (104) |
| **Net cash (outflow) from operating activities** | **(3,568)** | (3,551) | (6,926) |

New finance leases in the period of £1.3m are funding property, plant and equipment.

# Notes to the condensed consolidated interim accounts

FOR THE SIX MONTHS ENDED 30 JUNE 2007 continued

## 7. Contingent liabilities

As reported in the annual report for the year ended 31 December 2006 an un-quantified claim has been made against the Company by an individual following their departure from the Company during that period. The Board continue to strenuously believe the claim is unfounded, and accordingly no provision has been made.

As reported in the trading statement issued on 29 May 2007, the Board is monitoring patent challenges lodged against some of Biotec's products and continues with SPhere to evaluate the significance of these challenges.

## 8. Condensed consolidated interim accounts

The financial information contained in this interim statement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The results for the period are unaudited. The financial information for the year to 31 December 2006 and the six months ended 30 April 2006 has been extracted from the Group's 2006 Annual Report and the 2006 Interim Report. The 2006 Annual Report has been filed with the Registrar of Companies. The audit report on the Annual Report 2006 was unqualified and did not contain a statement under Section 237 (2) or (3), of the Companies Act 1985.

This interim statement is being sent to all shareholders and is also available upon request from the Company Secretary, Stanelco PLC, Starpol Technology Centre, North Road, Marchwood, Southampton SO40 4BL or viewed at http://www.stanelcoplc.com/investor_reports.html.



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