# STANELCO PLC

ANNUAL REPORT and FINANCIAL STATEMENTS
for the year ended 31 October 2003

# OFFICERS AND ADVISERS

***Executive Directors***
Ian H Balchin *(Chief Executive)*
Robert E Duggan
Barrie C Hozier *(Finance Director)*
Graham J Whitchurch
Howard White *(Deputy Chief Executive)*

***Non-Executive Directors***
Ms Elizabeth J Filkin *(Senior Independent Director)*
Philip A Lovegrove OBE *(Chairman)*

***Secretary***
Robert E Duggan

***Registered Office***
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Brunel Way
Segensworth East
Fareham
Hampshire PO15 5SD

***Company Registration No***
1873702 (England and Wales)

***Bankers***
Barclays Bank plc
2 High Street
Chelmsford
Essex CM1 1DS

***Solicitors***
Eversheds
Cloth Hall Court
Leeds LS1 2JB

***Registrars***
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

***Auditors***
Jeffreys Henry
*Registered Auditors*
*Chartered Accountants*
Finsgate, 5-7 Cranwood Street
London EC1V 9EE

***Brokers***
Fiske plc
Salisbury House
London W
London EC2M 5QS

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# CHAIRMAN'S STATEMENT

FOR THE YEAR ENDED 31 OCTOBER 2003

## RESULTS

Despite the expected continued downturn in its traditional business of supplying Radio Frequency (RF) Furnaces to the telecommunications market for the manufacture of optical fibre the Company is pleased to report that it was able to fund all its new developments within the year entirely from its own resources, without the need for any borrowing.

Trading conditions for the year have been tough. We expect difficult conditions in the telecommunications market to continue and despite disappointing second half orders for RF Bag Welders, we are expanding into new markets and have encouraging interest from a number of potential export customers. In addition the significant developments we are making to enter new markets, based on our patented RF technology, are now bearing fruit.

The following accounts have been extracted without material adjustment from the audited consolidated profit and loss account for the year ended 31 October 2003 and 31 October 2002. Investors should read the whole document and not just rely on the key or summarised information.

| | **Year to 31 October 2003 £'000** | Year to 31 October 2002 £'000 |
|---|---|---|
| Turnover | **1,861** | 3,570 |
| Trading (loss)/profit – before exceptional items | **(517)** | 411 |
| Exceptional items | **(130)** | 155 |
| Net interest receivable | **24** | 48 |
| (Loss)/profit on ordinary activities before taxation | **(623)** | 614 |
| Taxation | **156** | (177) |
| (Loss)/profit after taxation | **(467)** | 437 |
| Minority interest | **2** | — |
| Dividends | **(70)** | (69) |
| Retained (loss)/profit for the year | **(535)** | 368 |

## FUTURE PROSPECTS

The Company is in the process of transforming itself from being principally a supplier of capital equipment into cyclical markets, to being predominantly a supplier of licensed technology for mass-market applications in exchange for a share of the value it adds to a customers' business. This could be in the form of royalties, a share of cost savings, a share of additional profits generated or lump sum payments. The acquisition of Adept Polymers Limited by the Company has enabled us to apply their valuable expertise, intellectual property and facilities to support our materials developments within our RF projects.

The Company is currently concentrating on a number of emerging products, markets and applications. These include pharmaceutical and nutraceutical capsules for the healthcare markets, homecare and industrial capsules for the unit doses of detergent and other chemicals in soluble capsules, foamed starch containers for food which are environmentally friendly and economic replacement for conventional plastic packaging and edible sachets for convenience foods.

Our success in developing these emerging products is reliant on the continued commitment and contribution of the Company's employees, business partners and most importantly our customer relationships. The Board is grateful to them all.

Philip Lovegrove
*Chairman*

14 January 2004

# CHIEF EXECUTIVE'S STATEMENT

FOR THE YEAR ENDED 31 OCTOBER 2003

Our aim is simple: to create a valuable technology business based upon Radio Frequency (RF) applications.

Trading conditions during the year have been tough for the Company. We expect the difficult conditions in the telecommunications market to continue. I am pleased to report, though, that the significant developments we are making to enter new markets, based upon adaptations of our RF technology, are now beginning to bear fruit.

## RESULTS

I am pleased to report that the Company was able, within the year, to fund its new developments entirely from its own financial resources, without borrowing, despite the expected continued downturn in its traditional business of supplying furnaces to the telecommunications market for the manufacture of optical fibre. We have seen turnover decline to £1.9m (2002: £3.6m) which has resulted in a Group loss before tax of £(623)k (2002: profit £614k). We are recommending that the dividend payment be maintained at £70k (0.01p per share), the third time that the Company has made a dividend payment. After taxation and dividend charges there is a retained loss for the Group of £(535)k (2002: profit £368k).

During the year our furnace agent in Japan, Iriye Trading Company went into administration leaving debts owing to the Company of £130k which we have prudently decided to expense as a precaution.

## PROSPECTS

The Company is in the process of transforming itself from being predominantly a supplier of capital equipment to cyclical markets, to being predominantly a supplier of licensed technology for mass-market applications in exchange for a share of the value it adds to the customers' business. This could be in the form of royalties, a share of cost savings, a share of additional profits generated or lump sum payments.

*Traditional Products, Markets and Applications*

- **RF Furnaces** – Telecommunications/data communications – rapid manufacture of optical fibre.
- **RF Bag Welders** – Waste management – Sealing hazardous materials.

*Emerging Products, Markets and Applications*

- **Pharmaceutical and nutraceutical capsules** – Healthcare – versatile, economic alternative to gelatine capsules
- **Homecare and industrial capsules** – Domestic and industrial – unit doses of detergent and other chemicals in soluble capsules to improve convenience, reduce the amount of chemical and contaminate packaging used.
- **Foamed starch containers** – Organic food/Retail/Food service industry – environmentally friendly and economic replacement for conventional plastic packaging.
- **Edible sachets** – convenience foods – portion pouches for ready meals and staple foods

The main focus of the business now is to complete the capsule developments being made by InGel Technologies Limited whilst endeavouring to maintain positive cash flow from operations in furnaces for optical fibre production and high-end waste packaging equipment.

### InGel Technologies

As reported previously, during December 2001 we entered into agreements with R.P. Scherer Corporation (a subsidiary of Cardinal Health Inc.) and now known as Cardinal Health concerning our RF technology for sealing soft pharmaceutical capsules, which should make production much faster and more economical whilst enabling the use of materials other than gelatine. Cardinal is ranked 19th on the current Fortune 500 list of largest companies in the USA.

# CHIEF EXECUTIVE'S STATEMENT
CONTINUED

Since that time there has been very significant progress towards commercialising this capsule making technology. I am pleased to report:

- Patents have been granted in several territories and are pending in others covering the formation, using RF, of capsules from soluble materials. We believe that this invention, which covers a process, is a platform technology with many applications and is likely to be valuable irrespective of the success of InGel. The Group retains ownership of this patent, which is currently licensed to InGel for its applications. The patent has now been granted in the United States – a major market for the applications of this technology. On 20 October 2003, the Company issued proceedings in the High Court against BioProgress plc specifically in response to a letter sent to the Company by solicitors acting for BioProgress claiming certain rights to the Company's patents and patent applications for "Radio Frequency (RF) welding water soluble film for making capsules". In a subsequent statement the Company stated that it considers that the BioProgress claims were entirely without merit and would be strongly resisted. The Company will take all actions necessary to protect its ownership of all patents and thereby safeguard shareholder value.
- InGel has made further patentable new inventions in the course of its development work that I believe are key to successful commercialisation.
- The acquisition of Adept Polymers Limited by the Company has enabled us to inject and apply valuable expertise, intellectual property and facilities to support materials development within this venture.
- The pilot scale machine capable of producing large batch sizes for stability and clinical trials is complete and installed in premises designed for pharmaceutical capsule manufacture. Work is continuing to develop the optimum processing conditions.
- Cardinal Health (which in December 2001 acquired 3 per cent. of Stanelco plc and 5 per cent. of InGel, with a deferred payment to acquire an additional 5 per cent. of InGel) has committed a full-time team of people in support of InGel, working as part of a team with our own staff and others. The deferred payment is due to the Company at the end of the calendar year 2004 and is currently expected to be in excess of £1m.

Our best estimates are that we expect InGel to begin commercialising the technology in late 2004/early 2005, and we believe that it offers the prospect of revolutionising the manufacture of water soluble and ingestible soft capsules.

**Optical fibre**

Whilst we have seen an increase in the level of enquiries we are not anticipating a recovery in the global telecommunications market in the year ahead as optical fibre manufacturers continue to postpone capital investment.

The Company continues to focus on assisting its customers reduce their unit cost of production and remains poised for the next market upturn. In the meantime actions have been taken to reduce our cost base and we have reduced the level of development work we are doing on these products in order to concentrate on the emerging applications.

We have now supplied two Modified Chemical Vapour Deposition (MCVD) systems to Japan for making specialist quartz pre-forms from which optical fibre is drawn. The MCVD technology is used to dope the quartz with rare earth metals in order to modify its optical properties. We have enquiries for further systems.

**Waste packaging**

The Company's RF sealing technology enables customers to seal hazardous materials in industrial grade plastic bags. Unlike heat sealing and other RF methods we can seal through liquids, dusts and particulates, without burning the plastic, to produce a high integrity seal.

# CHIEF EXECUTIVE'S STATEMENT
CONTINUED

Sales of this unit during the second half were disappointing as customers again postponed buying decisions. The level of interest and quotations currently outstanding give us confidence though that this product line should generate between £500k and £1m of annual sales in the financial year 2003/2004.

We have now launched this product in Japan and the USA – two markets where we perceive we can be very competitive.

**Homecare and industrial capsules**

We have continued to develop our RF sealing technology to rapidly and accurately join together films made from polyvinyl alcohol (PVOH), an environmentally safe water-soluble material manufactured by our Adept Polymers subsidiary and others. This process and films have a wide range of applications including detergent and dishwasher capsules. Both our films and the RF sealing technology have now been qualified for these applications.

We have entered into agreement with AquaSol Limited to convert inefficient thermal sealing machines to work with RF sealing technology and the latest generation of water-soluble film materials, saving customers around 40 per cent. in unit production costs. The Company and Aquasol will reap a return on this through a share of the cost savings in the form of royalties. We anticipate that the first conversion will take place during the first half of the 2003/2004 financial year.

**Foamed starch food containers**

During the year the Company invented a new process for the manufacture of biodegradable and compostible starch containers, initially, for the food industry, but with potential uses elsewhere. The Company has demonstrated that it can rapidly form starch foams in moulds at more than ten times faster than conventional heating technology.

With patents applied for on this innovative use of RF technology the Company is currently in discussion with several large packaging manufacturers with a view to entering into a development programme and licensing to commercialise this technology. The Company has been working closely with starch suppliers and with Sainsbury's who have been supportive in progressing this project and wish to become the first adopter of this technology. We have established Starpol Packaging Systems Limited as a vehicle to commercialise this technology.

The worldwide market for foamed containers, such as food trays and fast food boxes is enormous, running into billions of units annually. Our invention may enable the economic manufacture of these containers from starch that comes from replenishable sources such as potatoes or corn, that when finished with will be composted or biodegraded. We do not know at present what the full commercial potential of this technology is. That will depend upon the response and endeavours of the packaging industry.

**Edible food satchets**

The Company has also invented an RF process for sealing edible food sachets and is in discussions with a number of organisations, including Sainsbury's, about developing applications and licensing this technology to food manufacturers and brands.

The sachets are made from starch that is obtained from renewable sources; it is edible, free from genetically modified materials, soluble in water and biodegradable. The Company is working closely with starch suppliers.

With patents pending on this innovative use of RF technology, the Company is both in discussion with and currently seeking further partners with whom to develop and commercialise this technology. This is a separate process from that used to make foamed starch containers that the Company, in conjunction with Sainsbury's, announced in July.

We are at an early stage with this technology although the Company's vision is for a revolution in packaging for convenience food involving a reduction in packaging materials going to landfill. Applications for example could include pre-measured coffee, rice or packet soups where the whole packet is added to boiling water with no waste or spillage. We feel sure there are many applications to be investigated and developed.

# CHIEF EXECUTIVE'S STATEMENT
CONTINUED

To this end the Company

- is currently working with food manufacturing companies to formulate recipes.
- has access to a supply of food grade starch film material in commercial quantities.
- has established Starpol Edible Films Limited as a vehicle for commercialising this technology.

**R&D work**

In 2003 we invested more than 43 per cent. of our turnover into research and development activities. When it makes sense, we seek to protect our intellectual property through patenting and we work closely with intellectual property specialists in this regard. We continue to anticipate significant R&D expenditure as we develop new products for the future.

**Patent expenditure**

During the year the Company spent £47k on patents and protecting its intellectual property.

**THANK YOU**

Thank you again to the team of hard working people at Stanelco who in partnership with our customers and suppliers continue to improve our business.

Ian H Balchin
*Chief Executive*

14 January 2004

# DIRECTORS' REPORT

The Directors submit their report and the financial statements of Stanelco PLC for the year ended 31 October 2003.

## PRINCIPAL ACTIVITIES

The principal activity of the Company during the year was that of a holding investment company. Its wholly owned trading subsidiary, Stanelco Fibre Optics Limited is a manufacturer and supplier of high frequency thermal processing equipment and equipment for sealing plastic high-end waste containers, using Radio Frequency (RF). Its other subsidiary undertaking, InGel Technologies Limited, is a research and development company. Adept Polymers Limited was acquired on 30 July 2003 and is a company that specialises in the formulation and manufacture of biodegradable plastic based on polyvinyl alcohol. This material has a wide range of applications from liquid detergent capsules to laundry bags that dissolve in the wash.

## BUSINESS REVIEW

The Chairman provides a review of the business and future developments in his statement on page 3.

The Company's subsidiary Stanelco Fibre Optics Limited commenced an action in the High Court against BioProgress Plc during the year. Further details are contained in the Chief Executive's statement on pages 4 to 7 and in note 25 to the financial statements.

## RESEARCH AND DEVELOPMENT

By the very nature of the business, costs are incurred in research and development and these have amounted to £814,032 (2002: £844,712).

## POST BALANCE SHEET EVENTS

Subsequent to the year end the Company has undertaken an underwritten rights issue with the purpose of raising circa £1.6m in order to provide working capital that will be used substantially to complete the development and to commercialise new RF based technologies that have been identified during the year. Further details of these new technologies are reported in the Chief Executive's statement.

## RESULTS AND DIVIDENDS

The trading results of the Group for the year are set out in the consolidated profit and loss account on page 19.

The Directors recommend payment of a dividend of 0.01p (2002: 0.01p) per share.

## DIRECTORS AND DIRECTORS' INTERESTS

The Directors who served during the year and their beneficial interests in the shares of the Company are as follows:

| | | **Ordinary shares of 0.1p each** | |
|---|---|---|---|
| | | **31 October 2003** | 1 November 2002 |
| Ian H Balchin | (Chief Executive) | **—** | — |
| Robert E Duggan | (Executive Director from 1/9/03) | **—** | — |
| Ms Elizabeth J Filkin | (Chairman to 31/8/03, Senior Independent Non-Executive Director from 1/9/03) | **—** | — |
| Barrie C Hozier | (Finance Director) | **13,333,333** | — |
| Philip A Lovegrove | (Chairman from 1/9/03) | **4,225,000** | — |
| Graham J Whitchurch | (Executive Director from 1/9/03) | **—** | — |
| Howard White | (Non-Executive Director to 31/8/03 Executive Director from 1/9/03 and Deputy Chief Executive from January 2004) | **—** | — |

The above Directors have no non-beneficial interests in the shares of the Company.

# DIRECTORS' REPORT
CONTINUED

The following Directors resigned during the year:

Ian N Davis (Non-Executive, resigned 1/9/03)
Christopher H B Mills (Non-Executive, resigned 1/9/03)
Mrs Audrey R Shepherd (resigned 1/9/03)

Share options granted to Directors are set out in the Remuneration Committee Report on page 13.

The register of Directors' interests contains full details of the share options. It is the Company's policy to issue share options to both incentivise future and reward past good performance.

In accordance with the Company's articles, Ian Balchin retires by rotation. In addition, Robert Duggan, Philip Lovegrove and Graham Whitchurch who having been appointed as Directors since the last Annual General Meeting, stand for election at the forthcoming Annual General Meeting in accordance with the Company's articles. These Directors offer themselves for re-election.

Ian Henry Balchin, 39, is Chief Executive Officer at Stanelco plc and chairman of its subsidiaries. He has been Stanelco plc's Chief Executive since October 2000. Previously Ian was a Managing Director at AEA Technology plc, and a Director of three subsidiaries (chairman of two). He has worked across a broad range of industries including, materials, semiconductor, automotive, software, instrumentation, pharmaceutical, oil and gas and new ventures. Ian has a degree in chemistry with economics from the University of Sussex.

Robert Edward Duggan, 37, is a Chartered Accountant with experience of financial management in engineering, retail, manufacturing and the public sector. He is also Company Secretary for the Stanelco Group companies.

Philip Albert Lovegrove OBE, 66, Non-Executive Chairman has been involved in asset management, corporate finance and corporate recoveries in the City of London for over 40 years. He is a Director of Fiske plc, Ashtead Group Plc and Chairman of VTR Plc.

Graham John Whitchurch, 44, is a qualified engineer and has considerable experience in the development and manufacture of biodegradable polymers.

## SUBSTANTIAL SHAREHOLDING

The Company has been notified that the following shareholders held a beneficial interest of 3 per cent. or more of the Company's issued share capital as at the date of approval of the financial statements.

| | **Ordinary shares of 0.1p each** | |
|---|---|---|
| *3 per cent. or more:* | **Percentage** | **Number** |
| The Age of Reason Foundation | 32.33 | 227,078,122 |
| HSBC Global Custody Nominee (UK) Limited | 7.12 | 50,000,000 |
| Richards and Appleby (and associated holdings) | 7.11 | 49,910,000 |
| *Other significant holdings:* | | |
| Cardinal Health 409 Incorporated (formerly known as R.P. Scherer Corporation) | 2.93 | 20,604,900 |

Mr Ben White, the adult son of Mr Howard White, is the primary beneficiary of The Age of Reason Foundation which holds 227,078,122 ordinary 0.1p shares in Stanelco PLC representing 32.33 per cent. of the issued share capital.

## DIRECTORS' INTERESTS IN CONTRACTS

Directors' interests in contracts with the Group are disclosed in note 24 to the financial statements.

# DIRECTORS' REPORT
CONTINUED

## DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## PAYMENT POLICY AND PRACTICE

It is the Company's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of those terms and to abide by them. Trade creditors at the year end amount to 80 days (2002: 68) of average suppliers for the year.

## CORPORATE GOVERNANCE

*Introduction*

The following statement sets out the Company's compliance with the requirements of the Combined Code. The Board confirms that the Company has complied throughout the year with the Combined Code in so far as it is practicable for a public company of its size.

## CODE OF BEST PRACTICE

*The Board of Directors*

The Directors of the active subsidiary companies meet on a regular basis to control and monitor the executive management of those operations. The Board of Directors of the holding company (the Group Board) ensures that a representative of the Group Board attends subsidiary Company Board meetings periodically to monitor their performance, and has a schedule of matters specifically reserved to it for decision. The Group Board approves all matters relating to strategy, major development and investment decisions. All Directors have access to advice from the Company Secretary and independent professionals at the Company's expense. The Group Board consists of five Executives and two Non-Executive Directors with distinct roles for the Chairman and Chief Executive. The Non-Executive Directors are independent of the executive management of the Group. All Non-Executive Directors have annually renewable service contracts. Ms E. Filkin has been formally identified as the senior Independent Director.

One third of Directors are subject to re-election every year and, on appointment, at the first Annual General Meeting thereafter.

## COMMITTEES OF THE BOARD

*Remuneration committee*

The remuneration committee is comprised of all Non-Executive Directors. The Committee will be chaired by a Non-Executive other than the Chairman. Details of the Company's compliance with Section B of the Combined Code (in relation to Directors' remuneration) are set out in the Directors' remuneration report on pages 12 to 14.

# DIRECTORS' REPORT
CONTINUED

*Audit committee*

The Committee monitors the adequacy of the internal controls of the active subsidiaries, accounting policies and financial reporting. It also discusses with the external auditors the results of the audit of the Group's financial statements. The members of the Audit committee include Philip A Lovegrove and Elizabeth J Filkin.

*Nominations committee*

The Board has not appointed a Nominations Committee as it feels that the Board is sufficiently small for suggested appointments to the Board to be discussed by all of its members.

## INTERNAL CONTROL

The Group Board has overall responsibility for the Group's systems of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, but not absolute assurance that assets are safeguarded against material misstatement or loss or unauthorised use and that transactions are properly authorised and recorded. The Group Board reviews the effectiveness of the system of internal control including financial, operational and compliance controls and risk management during its regular Board meetings on an informal basis.

Operating Company management has a clear responsibility for the identification of business risk and the implementation of an appropriate control response. Management reviews are supplemented by periodic checks organised from holding company level.

The key features of the Group's system of internal control are as follows:

The control environment is supported through written accounting and control policies and procedures, clearly drawn lines of accountability and delegation of authority. The financial performance of the subsidiaries are monitored through monthly management accounts, which report against budgets and forecasts both at local and holding company levels.

The Company does not have an internal audit team as the Directors do not currently consider the need for one.

## SHAREHOLDERS

The Executive Directors maintain contact with institutional shareholders and make presentations to shareholders following preliminary and interim announcements and any other developments which the Board considers appropriate.

## GOING CONCERN

After making enquiries the Directors have a reasonable expectation that the Group will raise significant new funds and expect new revenue streams from products currently in development to ensure 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 financial statements.

## AUDITORS

Jeffreys Henry were appointed auditors to the Company and in accordance with Section 385 of the Companies Act 1985, a resolution proposing that they be re-appointed will be put to the Annual General Meeting.

BY ORDER OF THE BOARD

Robert E Duggan
*Secretary*

14 January 2004

# DIRECTORS' REMUNERATION REPORT

The Remuneration Committee comprises the Non-Executive Directors. For the accounting period the committee was chaired by Christopher H B Mills. Following his resignation the committee is now chaired by Elizabeth J Filkin, Senior Independent Director. The Remuneration Committee advises the Board on individual Directors' remuneration packages. The Remuneration Committee has met twice during the year and has access to independent advice where it considers it appropriate. The Remuneration Committee considers recommendations from Ian Balchin, Chief Executive, at its meetings.

### REMUNERATION POLICY

The remuneration policy is set by the Board as a whole. The Remuneration Committee provides advice on the remuneration package of each Director. The main objectives of the Company's executive remuneration policy are to provide a remuneration package that will attract, retain and motivate individuals of an appropriate calibre and to ensure that the interests of the Executive Directors are aligned with those of the shareholders. The latter objective is satisfied by ensuring that the Executive Directors' remuneration package includes a significant element of performance-related incentives. The remuneration of Executive Directors consists of five elements: basic salary, performance-related incentives, benefits in kind, share options and pension provision. Remuneration details for each Director are set out below.

### BASIC SALARY

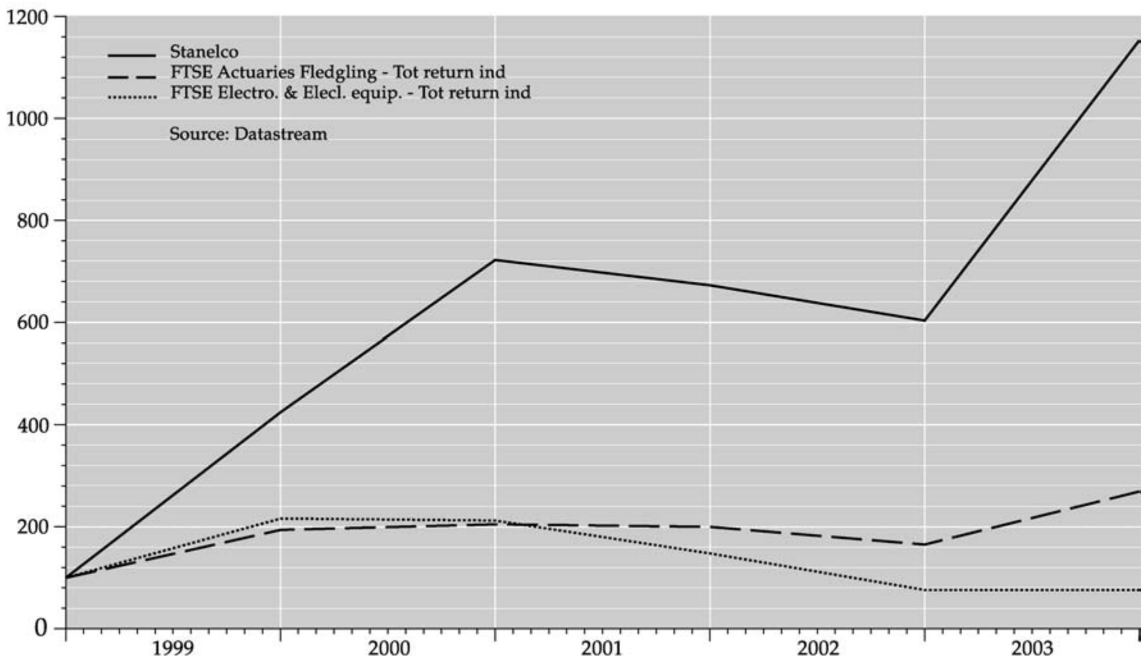
The basic annual salary for each of the Executive Directors is determined by the Remuneration Committee having regard to their performance and market practice. It is the aim of the Committee to reward Directors competitively and on the broad principle that their remuneration should be based around the median remuneration paid to senior management of comparable public companies.

### PERFORMANCE-RELATED INCENTIVES

Annual performance-related incentives are considered and awarded based on the performance of both the individuals and the Group and are awarded on the recommendation of the Remuneration Committee. The amount awarded is determined at the end of the financial period by the Committee. Any such award is disregarded for pension purposes.

### TOTAL SHAREHOLDER RETURN

The following graph charts the total cumulative shareholder return of the Company since 1 November 1998, compared with the value of £100 invested in the FTSE Electronic and Electrical Equipment Total Return Index, under which Stanelco plc is listed, and the FTSE Actuaries Fledgling Total Return Index.



# DIRECTORS' REMUNERATION REPORT

CONTINUED

## SHARE OPTIONS

The Company operates a share option scheme for executives and employees. Options issued under this scheme may be exercised between three and ten years after the date granted. The Committee believes these criteria to be appropriate as they ensure that executive and employee rewards are directly linked to the increase in wealth of shareholders in real terms.

## SERVICE CONTRACTS

All Directors have service contracts. Each Executive Director has a service contract that may continue in force until their normal retirement date. These contracts do not contain provisions for pre-determined compensation that exceeds salary and benefits in kind for the notice period.

Directors contracts and termination notices

| | **Date of contract** | **Termination notice** | **Renewable** |
|---|---|---|---|
| **Executive Directors** | | | |
| Ian H Balchin | 12 Oct 2000 | 3 months' notice | Normal retirement date |
| Robert E Duggan | 1 Sept 2003 | 3 months' notice | Normal retirement date |
| Barrie C Hozier | 27 Jan 2003 | 3 months' notice | Normal retirement date |
| Audrey R Shepherd | 19 Aug 1991 | 3 months' notice | Annually |
| Howard White | 29 July 2002 | None | Annually |
| Graham J Whitchurch | 1 Sept 2003 | 3 months' notice | Normal retirement date |
| **Non-Executive Directors** | | | |
| Philip A Lovegrove | 1 Oct 2003 | None | Annually |
| Elizabeth J Filkin | 1 Sept 2003 | None | Annually |
| Ian N Davis | 9 July 2002 | None | Annually |
| Christopher H B Mills | 1 Aug 2002 | None | Annually |

## PENSIONS

The Company makes contributions to individual pension schemes for two of the Executive Directors, Ian Balchin 5 per cent. of basic salary and Graham Whitchurch 7.5 per cent. of basic salary. The Non-Executive Directors do not receive any pension contribution.

The auditors have audited the information contained in the following section of the Directors' remuneration report.

## DIRECTORS' SHARE OPTIONS

| | | | | | **Ordinary Shares of 0.1p each** | |
|---|---|---|---|---|---|---|
| | **Date granted** | **Date exercisable** | **Date option lapses** | **Option price** | **31 October 2003** | 1 November 2002 |
| Ian H Balchin | 12 Oct 2000 | 12 Oct 2003 | 12 Oct 2010 | 2.85p | **46,573,049** | 46,573,049 |
| Ian H Balchin* | 31 Oct 2001 | 31 Oct 2004 | 31 Oct 2011 | 2.85p | **6,756,750** | 6,756,750 |
| Robert Duggan | 31 Oct 2002 | 31 Oct 2005 | 31 Oct 2012 | 2.25p | **1,111,111** | — |
| Barrie C Hozier | 31 Oct 2001 | 31 Oct 2004 | 31 Oct 2011 | 2.95p | **13,243,244** | 13,243,244 |
| Barrie C Hozier* | 31 Oct 2001 | 31 Oct 2004 | 31 Oct 2011 | 2.95p | **6,756,750** | 6,756,750 |
| Audrey R Shepherd | 31 Oct 2001 | 31 Oct 2004 | 31 Oct 2011 | 2.95p | **5,000,000** | 5,000,000 |
| Audrey R Shepherd* | 2 Jul 2001 | 2 Jul 2002 | 2 July 2011 | 2.95p | **871,080** | 871,080 |

* *Enterprise Management Incentive Scheme*

The Board has approved the recommendation of the Remuneration Committee to award share options over 8,000,000 Ord 0.1p shares to Graham Whitchurch. The approval is subject to agreement by the shareholders at the next Annual General Meeting.

There have been no changes to Directors' executive share options since the period end. The Company's share price on 31 October 2003 was 4.75p and traded during the period at prices between 2.25p and 5.5p.

# DIRECTORS' REMUNERATION REPORT
CONTINUED

DIRECTORS' REMUNERATION DURING THE YEAR

| | 2003 | | | | 2002 |
|---|---|---|---|---|---|
| | **Salary and fees** | **Performance related bonus** | **Benefits in kind** | **Total** | Total |
| **Executive Directors** | | | | | |
| Ian H Balchin | **100,000** | **—** | **567** | **100,567** | 105,000 |
| Ian N Davis | **—** | **—** | **—** | **—** | 31,250 |
| Robert Duggan (from 1 Sept 2003) | **6,667** | **—** | **416** | **7,083** | — |
| Barrie C Hozier | **37,500** | **—** | **1,004** | **38,504** | 50,000 |
| Mrs Audrey R Shepherd | **26,000** | **—** | **7,615** | **33,615** | 40,099 |
| Graham Whitchurch (from 1 Sept 2003)* | **9,433** | **—** | **2,189** | **11,622** | — |
| Howard White (from 1 Sept 2003) | **1,667** | **—** | **—** | **1,667** | — |
| **Non-Executive Directors** | | | | | |
| Ms Elizabeth Filkin | **23,330** | **—** | **—** | **23,330** | 8,333 |
| Ian N Davis (to 20 June 2002) | **6,667** | **—** | **—** | **6,667** | 3,750 |
| Philip Lovegrove (from 1 Sept 2003) | **2,500** | **—** | **—** | **2,500** | — |
| Christopher H B Mills (to 31 July 2003) | **7,500** | **—** | **—** | **7,500** | 2,500 |
| Howard White (to 31 Aug 2003) | **8,333** | **—** | **—** | **8,333** | 2,500 |
| Total Board | **229,597** | **—** | **11,791** | **241,388** | 243,432 |

* Graham Whitchurch was appointed a Director on 1 Sept 2003. His remuneration is paid and accounted for by Adept Polymers Limited, a wholly owned subsidiary company.

The Company made a contribution of £5,000 (2002: £4,750) to Ian Balchin's personal pension fund.

BY ORDER OF THE BOARD

Elizabeth J Filkin
*Chairman of the Remuneration Committee*

14 January 2004

# INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF STANELCO PLC

We have audited the financial statements on pages 17 to 34 which have been prepared under the historical cost convention and accounting policies set out on pages 17 and 18. We have also audited the information in the Directors' remuneration report on pages 12 to 14 that is described as having been audited.

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

## RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND AUDITORS

As described on pages 10 and 11 the Company's Directors are responsible for preparing the annual report and the Directors' remuneration report. This includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report that is described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the corporate governance statement on pages 10 and 11 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement and the unaudited part of the Directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## BASIS OF OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

# INDEPENDENT AUDITORS' REPORT
CONTINUED

OPINION

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group at 31 October 2003 and of the loss of the Group for the year then ended and the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

JEFFREYS HENRY
*Chartered Accountants*
*Registered Auditors*

Finsgate
5-7 Cranwood Street
London EC1V 9EE

14 January 2004

# PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

The accounts have been prepared on a going concern basis as the Directors believe that subsequent to the year end, significant new funds will be raised by the Company and the Directors expect new revenue streams from products currently in development that will enable the Company to pay its debts as and when they fall due.

The principal accounting policies of the Group remain unchanged from the prior period and are set out below.

BASIS OF CONSOLIDATION

The Group accounts consolidate the financial statements of the Company and subsidiary undertakings, Stanelco Fibre Optics Limited, Stanelco Products Limited, InGel Technologies Limited, Zircotec Limited, InGel Industrial Limited and Adept Polymers Limited. Profit or losses on intra-group transactions are eliminated in full.

GOODWILL

Goodwill representing the excess of the fair value of the purchase price over the fair value of the separable net assets acquired will on future acquisitions be capitalised and amortised over an appropriate period.

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at historical cost less depreciation.

Depreciation is provided on all tangible fixed assets at rates calculated to write off their cost less estimated residual value over their expected useful lives, as follows:

| | |
|---|---|
| Plant and equipment | 10-33.3 per cent. straight line basis |
| Fixtures, fittings and equipment | 10-20 per cent. straight line basis |
| Motor vehicles | 25 per cent. straight line basis |

INTANGIBLE FIXED ASSETS

Intangible fixed assets are stated at historical cost less amortisation.

Amortisation is provided on all intangible assets at rates calculated to write off the costs over the expected economic life of the assets.

| | |
|---|---|
| Development costs | 10-20 per cent. straight line basis |

STOCK AND WORK IN PROGRESS

Stock and work in progress is stated at the lower of cost and net realisable value. Cost is calculated using the first-in-first-out method and consists of material and direct labour costs, together with an appropriate proportion of production overheads.

DEFERRED TAXATION

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes.

LEASED ASSETS AND OBLIGATIONS

Assets obtained under finance leases and hire purchase contracts are capitalised as tangible fixed assets at the estimated present value of underlying lease payments and depreciated over the shorter of the lease term and their useful lives in accordance with the above policy. Obligations under such agreements are included in creditors net of the finance charges allocated to future periods. The finance element of the rental payments is charged to the profit and loss account over the period of the lease so as to produce a constant periodic rate of charge on the outstanding balance of the net obligation in each period.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

# PRINCIPAL ACCOUNTING POLICIES
CONTINUED

## PENSIONS

The Group makes contributions to personal pension schemes based on contractual terms. Pension costs charged in the financial statements represent the contributions payable by the Group during the period.

## FOREIGN CURRENCY TRANSLATION, DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the accounting date. All differences are taken to the profit and loss account.

Details as to the Group's policies on derivatives and other financial instruments are disclosed in note 23.

## TURNOVER

Turnover represents amounts receivable for goods and services invoiced to customers excluding VAT and trade discounts.

## RESEARCH AND DEVELOPMENT

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the Directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is capitalised as an intangible fixed asset.

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 OCTOBER 2003

| | Note | 2003 £'000 | 2002 £'000 |
|---|---|---|---|
| Turnover | | | |
| Continuing operations | | **1,851** | 3,570 |
| Acquisitions | | **10** | — |
| | 1 | **1,861** | 3,570 |
| Cost of sales | | **(1,028)** | (1,931) |
| Gross profit | | **833** | 1,639 |
| Distribution costs | | **(31)** | (35) |
| Administrative expenses | 1 | **(1,319)** | (1,193) |
| Exceptional item | 1 | **(130)** | 155 |
| **OPERATING (LOSS)/PROFIT** | | | |
| Continuing operations | | **(563)** | 566 |
| Acquisitions | | **(84)** | |
| | | **(647)** | 566 |
| Interest receivable and similar income | | **24** | 49 |
| Interest payable and similar charges | 2 | **—** | (1) |
| **(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION** | | **(623)** | 614 |
| Taxation | 4 | **156** | (177) |
| **(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION** | | **(467)** | 437 |
| Minority interest | | **2** | — |
| Dividends | | **(70)** | (69) |
| **RETAINED (LOSS)/ PROFIT FOR THE YEAR** | 14 | **(535)** | 368 |
| The calculation of earnings per share is based on the (loss)/profit after tax for the year of £(467,000) (2002: £437,000) and a weighted average of 691,032,490 (2002: 685,112,680) ordinary shares in issue | | | |
| Basic (loss)/earnings per share – pence | | **(0.068)** | 0.064 |
| The calculation of diluted earnings per share is based on 697,001,257 (2002: 695,289,140) ordinary shares due to the dilutive effect of employee share options | | | |
| Diluted (loss)/earnings per share – pence | | **(0.067)** | 0.063 |

All transactions arise from continuing operations.

All recognised gains and losses are included in the profit and loss account.

*The accompanying accounting policies and notes form an integral part of the financial statements*

# CONSOLIDATED BALANCE SHEET

AS AT 31 OCTOBER 2003

| | | At 31 October 2003 | | At 31 October 2002 | |
|---|---|---|---|---|---|
| | Notes | £'000 | £'000 | £'000 | £'000 |
| **FIXED ASSETS** | | | | | |
| Intangible assets | 5 | | **1,586** | | 831 |
| Tangible assets | 6 | | **502** | | 307 |
| | | | **2,088** | | 1,138 |
| **CURRENT ASSETS** | | | | | |
| Stock | 8 | **537** | | 637 | |
| Debtors | 9 | **515** | | 775 | |
| Cash at bank and in hand | | **264** | | 1,151 | |
| | | **1,316** | | 2,563 | |
| **CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR** | 10 | **(648)** | | (812) | |
| **NET CURRENT ASSETS** | | | **668** | | 1,751 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | | **2,756** | | 2,889 |
| **PROVISIONS FOR LIABILITIES AND CHARGES** | 11 | | **(82)** | | (210) |
| | | | **2,674** | | 2,679 |
| **CAPITAL AND RESERVES** | | | | | |
| Called up share capital | 12 | | **702** | | 687 |
| Share premium account | 13 | | **1,597** | | 1,081 |
| Profit and loss account | 14 | | **348** | | 883 |
| **SHAREHOLDERS' FUNDS** | 15 | | **2,647** | | 2,651 |
| Minority interest – equity interest | | | **27** | | 28 |
| | | | **2,674** | | 2,679 |

The financial statements were approved by the Board on 14 January 2004

Signed on behalf of the Board of Directors

Ian H Balchin *(Chief Executive)*

Barrie C Hozier *(Finance Director)*

*The accompanying accounting policies and notes form an integral part of the financial statements*

# COMPANY BALANCE SHEET

AS AT 31 OCTOBER 2003

| | Note | At 31 October 2003 £'000 | At 31 October 2003 £'000 | At 31 October 2002 £'000 | At 31 October 2002 £'000 |
|---|---|---|---|---|---|
| **FIXED ASSETS** | | | | | |
| Tangible assets | 6 | | **182** | | 1 |
| Investment in subsidiary undertakings | 7 | | **—** | | — |
| | | | **182** | | 1 |
| **CURRENT ASSETS** | | | | | |
| Debtors | 9 | **1,723** | | 1,447 | |
| Cash at bank and in hand | | **8** | | 6 | |
| | | **1,731** | | 1,453 | |
| **CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR** | 10 | **(78)** | | (105) | |
| **NET CURRENT ASSETS** | | | **1,653** | | 1,348 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | | **1,835** | | 1,349 |
| **PROVISIONS FOR LIABILITIES AND CHARGES** | 11 | | **(1)** | | — |
| | | | **1,834** | | 1,349 |
| **CAPITAL AND RESERVES** | | | | | |
| Called up share capital | 12 | | **702** | | 687 |
| Share premium account | 13 | | **1,062** | | 546 |
| Profit and loss account | 14 | | **70** | | 116 |
| **SHAREHOLDERS' FUNDS** | 15 | | **1,834** | | 1,349 |

The financial statements were approved by the Board on 14 January 2004

Signed on behalf of the Board of Directors

Ian H Balchin *(Chief Executive)*

Barrie C Hozier *(Finance Director)*

*The accompanying accounting policies and notes form an integral part of the financial statements*

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 OCTOBER 2003

| | Note | 2003 £'000 | 2002 £'000 |
|---|---|---|---|
| NET CASH (OUTFLOW)/ INFLOW FROM OPERATING ACTIVITIES | 16 | **(367)** | 444 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest received | | **23** | 49 |
| Interest paid | | **—** | (1) |
| NET CASH (OUTFLOW)/INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | **23** | 48 |
| TAXATION | | | |
| Corporation tax paid | | **(4)** | (252) |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | | |
| Investment in intangible fixed assets | | **(619)** | (844) |
| Sale of tangible fixed assets | | **33** | 1 |
| Purchase of tangible fixed assets | | **(144)** | (86) |
| NET CASH (OUTFLOW) FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | **(730)** | (929) |
| ACQUISITIONS AND DISPOSALS | | | |
| Cash at bank acquired with subsidiary | 19 | **256** | — |
| EQUITY DIVIDENDS PAID | | | |
| Dividends paid | | **(65)** | (64) |
| FINANCING | | | |
| Issue of ordinary share capital | | **—** | 1,130 |
| Capital element of finance lease rentals | | **—** | (3) |
| NET CASH INFLOW FROM FINANCING | | **—** | 1,127 |
| (DECREASE)/INCREASE IN CASH | 17 | **(887)** | 374 |

*The accompanying accounting policies and notes form an integral part of the financial statements*

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 OCTOBER 2003

## 1. TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| Turnover | | |
| Sales are made from the United Kingdom into the following geographical markets: | | |
| United Kingdom | **800** | 1,042 |
| Europe | **373** | 1,357 |
| Asia | **379** | 647 |
| North America | **304** | 266 |
| Rest of world | **5** | 258 |
| | **1,861** | 3,570 |

The world-wide activities of Stanelco plc are highly integrated and, accordingly, it is not possible to present geographical segment information for profit before tax without making internal allocations, some of which are necessarily subjective. The net assets for the United Kingdom are as stated in the consolidated balance sheet on page 20.

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| The profit on ordinary activities before taxation is stated after charging/(crediting): | | |
| Depreciation and amortisation: | | |
| Intangible fixed assets, owned | **59** | 13 |
| Tangible fixed assets, owned | **122** | 92 |
| Tangible fixed assets, leased | **—** | 7 |
| Auditors' remuneration: | | |
| audit work | **17** | 15 |
| non-audit work | **8** | 10 |
| Hire of plant and machinery | **4** | 5 |
| Other operating lease rentals | **62** | 57 |
| Exceptional items | | |
| Exit from internet venture | **—** | (205) |
| Legal and professional fees | **—** | 50 |
| Bad debt provision | **130** | — |
| And after crediting: | | |
| Profit on foreign exchange transactions | **—** | (24) |
| Profit on disposal of tangible fixed assets | **(5)** | — |

## 2. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| Other interest payments | **—** | 1 |
| | **—** | 1 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

### 3. DIRECTORS AND EMPLOYEES

The average weekly number of persons (including Directors) employed by the Group during the period was:

| | **2003 Number** | 2002 Number |
|---|---|---|
| Management | **11** | 10 |
| Administration | **5** | 5 |
| Sales | **3** | 3 |
| Manufacturing and engineering | **17** | 22 |
| | **36** | 40 |
| | **£'000** | £'000 |
| **Staff costs:** | | |
| Wages and salaries | **962** | 1,205 |
| Social security costs | **109** | 133 |
| Other pension costs – personal pension contribution | **11** | 13 |
| | **1,082** | 1,351 |
| **Directors' remuneration** | | |
| Emoluments | **241** | 243 |
| Pension costs – personal pension contributions | **6** | 5 |
| | **247** | 248 |

The aggregate emoluments of the highest paid Director, excluding pension contributions were £100,567 (2002: £105,000). He also received a contribution to his personal pension scheme of £5,000 (2002: £4,750).

A detailed breakdown of Directors' emoluments is contained in the report of the Remuneration Committee.

### 4. TAXATION

(a) *Analysis of charge in period*

| | **2003 £'000** | **2003 £'000** | 2002 £'000 | 2002 £'000 |
|---|---|---|---|---|
| **Current taxation:** | | | | |
| UK corporation tax at 19 per cent. (2002: 21.67 per cent.) | **—** | | 25 | |
| Adjustments in respect of prior periods | **(25)** | | (18) | |
| | | **(25)** | | 7 |
| Total current tax (note 4b) | | **(25)** | | 7 |
| **Deferred taxation** | | | | |
| Origination and reversal of timing differences | **(131)** | | 170 | |
| Total deferred tax (note 11) | | **(131)** | | 170 |
| | | **(156)** | | 177 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

**4. TAXATION continued**

(b) *Factors affecting tax charge for period*

| | **2003** | 2002 |
|---|---|---|
| | **£'000** | £'000 |
| (Loss)/Profit on ordinary activities before taxation | (624) | 614 |
| (Loss)/Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19 per cent. (2002: 30 per cent.) | **(118)** | 184 |
| Expenses disallowed | **(41)** | 17 |
| R&D allowances | **(94)** | (222) |
| Capital allowances for period in excess of depreciation | **26** | 7 |
| Profits eliminated on consolidation | **—** | 52 |
| Increase/(Decrease) in general provisions | **1** | (3) |
| Adjustment to tax charge in respect of previous periods | **(25)** | (18) |
| Marginal rate relief | **—** | (10) |
| Losses carried forward | **226** | — |
| | **(25)** | 7 |

The Group has estimated trading losses of £1,783,000 available for carry forward against future trading profits.

**5. INTANGIBLE FIXED ASSETS**

GROUP

| | **Development costs £'000** |
|---|---|
| **Cost:** | |
| At 1 November 2002 | 844 |
| Additions | 814 |
| At 31 October 2003 | **1,658** |
| **Amortisation:** | |
| At 1 November 2002 | 13 |
| Provided in the year | 59 |
| At 31 October 2003 | **72** |
| **Net book value:** | |
| At 31 October 2003 | **1,586** |
| At 31 October 2002 | 831 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

### 6. TANGIBLE FIXED ASSETS

GROUP

| | Plant and equipment £'000 | Fixtures fittings and equipment £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 November 2002 | 220 | 187 | 192 | 599 |
| Additions | 270 | 21 | 56 | 347 |
| Disposals | (25) | (7) | (68) | (100) |
| At 31 October 2003 | **465** | **201** | **180** | **846** |
| **Depreciation** | | | | |
| At 1 November 2002 | 91 | 66 | 135 | 292 |
| Provided in the year | 54 | 32 | 36 | 122 |
| Disposals | (18) | (2) | (50) | (70) |
| At 31 October 2003 | **127** | **96** | **121** | **344** |
| **Net book value:** | | | | |
| **31 October 2003** | **338** | **105** | **59** | **502** |
| Net book value: | | | | |
| 31 October 2002 | 129 | 121 | 57 | 307 |

COMPANY

| | Plant and equipment £'000 | Fixtures fittings and equipment £'000 | Total £'000 |
|---|---|---|---|
| **Cost**: | | | |
| At 1 November 2002 | — | 3 | 3 |
| Additions | 182 | — | 182 |
| At 31 October 2003 | **182** | **3** | **185** |
| **Depreciation:** | | | |
| At 1 November 2002 | — | 2 | 2 |
| Charge for year | 2 | — | 2 |
| At 31 October 2003 | **2** | **2** | **4** |
| **Net book value:** | | | |
| At 31 October 2003 | **181** | **1** | **182** |
| At 31 October 2002 | — | 1 | 1 |

# NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

## 7. FIXED ASSETS INVESTMENTS

COMPANY

| | **2002** |
|---|---|
| | **£'000** |
| **Investment in subsidiary undertakings** | |
| Cost: | |
| 1 November 2002 and 31 October 2003 | 533 |
| **Provisions for diminution in value:** | |
| At 1 November 2002 and 31 October 2003 | 533 |
| **Net book value at 31 October 2003** | — |
| Net book value at 31 October 2002 | — |

In the opinion of the Directors, the aggregate value of the Company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

**Holdings of more than 20 per cent.**

The Company holds more than 20 per cent. of the share capital of the following companies:

| **Company** | **Country of registration** | **Class** | **Percentage shares held** |
|---|---|---|---|
| Stanelco Products Limited | England and Wales | 2 Ordinary £1 shares | 100 |
| Stanelco Fibre Optics Limited | England and Wales | 2 Ordinary £1 shares | 100 |
| InGel Technologies Limited | England and Wales | 9,500 Ordinary "A" 1p shares | 95 |
| Zircotec Limited | England and Wales | 1 Ordinary £1 share | 100 |
| InGel Industrial Limited | England and Wales | 2 Ordinary £1 shares | 100 |
| Adept Polymers Limited | England and Wales | 2 Ordinary £1 shares | 100 |

Stanelco Fibre Optics Limited is involved in the manufacture and supply of high frequency thermal processing equipment and equipment for sealing plastic high-end waste containers, using Radio Frequency. InGel Technologies Limited is a development company. Adept Polymers Limited was acquired on 30 July 2003 and is a company that specialises in the formulation and manufacture of biodegradable plastic based on polyvinyl alcohol. This material has a wide range of applications from liquid detergent capsules to laundry bags that dissolve in the wash. Stanelco Products Limited, Zircotec Limited and InGel Industrial Limited did not trade during the year.

All companies are wholly owned by Stanelco PLC except for InGel Technologies Limited in which a 5 per cent. shareholding is held by Cardinal Health 409 Incorporated (formerly known as R.P. Scherer Corporation).

## 8. STOCK

| | **2003** | 2002 |
|---|---|---|
| | **£'000** | £'000 |
| Raw materials and consumables | **322** | 353 |
| Work in progress | **90** | 99 |
| Finished goods and goods for resale | **125** | 185 |
| | **537** | 637 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

### 9. DEBTORS

GROUP

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| Trade debtors | **297** | 430 |
| Other debtors | **94** | 268 |
| Prepayments and accrued income | **124** | 77 |
| | **515** | 775 |

Other debtors include an amount of £nil (2002: £20,000) being a rent deposit which is due after more than one year.

COMPANY

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| Amounts owed by subsidiary undertakings | **1,691** | 1,279 |
| Other debtors | **32** | 168 |
| | **1,723** | 1,447 |

### 10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

GROUP

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| Trade creditors | **328** | 405 |
| Payments on account | **4** | 36 |
| Corporation tax | **—** | 29 |
| Other taxation and social security costs | **38** | 27 |
| Dividends | **78** | 74 |
| Other creditors | **1** | — |
| Accruals and deferred income | **199** | 241 |
| | **648** | 812 |

The Group bank overdraft facilities are secured by a standard debenture issued over the Group's assets in favour of their bankers and are repayable on demand.

COMPANY

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| Corporation tax | **—** | 25 |
| Dividends | **78** | 74 |
| Other creditors | **—** | 6 |
| | **78** | 105 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## 11. PROVISIONS FOR LIABILITIES AND CHARGES

| GROUP | **2003** | 2002 |
|---|---|---|
| | **£'000** | £'000 |
| **Deferred tax** | | |
| At 1 November 2002 | **195** | 25 |
| Accelerated capital allowances (note 4) | **(131)** | 170 |
| At 31 October 2003 | **64** | 195 |

| | **2003** | 2002 |
|---|---|---|
| | **£'000** | £'000 |
| **Warranty provision** | | |
| At 1 November 2002 | **15** | 25 |
| Utilised in the year | **(15)** | (25) |
| Provided in year | **18** | 15 |
| At 31 October 2003 | **18** | 15 |

The warranty provision is for expected warranty claims on products sold during the financial year by Stanelco Fibre Optics Limited. It is expected that this expenditure will be incurred in the next financial year.

| COMPANY | **2003** | 2002 |
|---|---|---|
| | **£'000** | £'000 |
| **Deferred tax** | | |
| At 1 November 2002 | **—** | — |
| Accelerated capital allowances (note 4) | **1** | — |
| At 31 October 2003 | **1** | — |

## 12. SHARE CAPITAL

| GROUP | **2003** | 2002 |
|---|---|---|
| | **£'000** | £'000 |
| Authorised | | |
| 885,000,000 Ordinary shares of 0.1p each | **885** | 885 |
| Allotted, issued and fully paid | | |
| 702,329,750 (2002: 686,829,750) Ordinary shares of 0.1p each | **702** | 687 |

During the year, 15,500,000 new shares were issued at an average of 3.43p each. 10,000,000 shares were issued in respect of the acquisition of Adept Polymers Limited and 5,500,000 shares for the discharge of a royalty agreement with Accentus Plc.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

### 12. SHARE CAPITAL continued

The number of share options outstanding under Enterprise Management Incentive Schemes and other schemes not approved by the Inland Revenue as at 31 October 2003 was as follows:

| | Option price per ordinary share | Number |
|---|---|---|
| **Enterprise Management Incentive Schemes** | | |
| exercisable in the period between: | | |
| July 2004 and July 2011 | 2.87p | 2,613,240 |
| October 2004 and October 2011 | 2.85p | 6,756,750 |
| October 2004 and October 2011 | 2.95p | 6,756,756 |
| October 2005 and October 2012 | 2.25p | 5,555,553 |

| | Option price per ordinary share | Number |
|---|---|---|
| **Inland Revenue unapproved schemes** | | |
| exercisable in the period between: | | |
| July 2004 and July 2011 | 2.87p | 1,742,160 |
| October 2003 and October 2010 | 2.85p | 46,573,049 |
| October 2004 and October 2011 | 2.87p | 871,080 |
| October 2004 and October 2011 | 2.95p | 18,243,244 |

As at 31 October 2003 there were 14 (2002: 16) participants in Enterprise Management Incentive Schemes and 4 (2002: 3) participants in Inland Revenue unapproved schemes.

During the year options over 1,097,754 shares within the Enterprise Management Incentive Scheme lapsed and 2,613,240 where disqualified from membership of the Enterprise Management Incentive Scheme.

The closing price of the ordinary shares at 31 October 2003 was 4.75p (2002: 2.25p).

### 13. SHARE PREMIUM ACCOUNT

| | **2003 £'000** | 2002 £'000 |
|---|---|---|
| GROUP | | |
| At 1 November 2002 | **1,081** | — |
| Premium on issue of shares (nominal value £15,500) | **516** | 546 |
| Premium on issue of shares in subsidiary undertakings | **—** | 563 |
| Minority interest in premium on issue of shares in subsidiary undertakings | **—** | (28) |
| At 31 October 2003 | **1,597** | 1,081 |
| COMPANY | | |
| At 1 November 2002 | **546** | — |
| Premium on issue of shares (nominal value £15,500) | **516** | 546 |
| At 31 October 2003 | **1,062** | 546 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

### 14. PROFIT AND LOSS ACCOUNT

GROUP

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| At 1 November 2002 | **883** | 515 |
| Retained (loss)/profit for the year | **(535)** | 368 |
| Accumulated profit at 31 October 2003 | **348** | 883 |

COMPANY

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| At 1 November 2002 | **116** | 60 |
| Retained (loss)/profit for the year | **(46)** | 56 |
| Accumulated profit at 31 October 2003 | **70** | 116 |

In accordance with the concession granted under Section 230 Companies Act 1985, the profit and loss account of the holding company has not been separately presented. The retained (loss)/profit after dividends of the holding company for the year is £(46)k (2002: £56k).

### 15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

GROUP

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| (Loss)/profit for the financial year | **(467)** | 437 |
| Minority interest | **2** | — |
| Dividends | **(70)** | (69) |
| | **(535)** | 368 |
| New share capital subscribed | **531** | 567 |
| New share capital subscribed in subsidiary undertakings | **—** | 563 |
| Minority interest in new share capital subscribed in subsidiary undertakings | **—** | (28) |
| Opening shareholders' funds | **2,651** | 1,181 |
| Closing shareholders' funds | **2,647** | 2,651 |

COMPANY

| | 2003 £'000 | 2002 £'000 |
|---|---|---|
| Profit for the financial year | **24** | 125 |
| Dividends | **(70)** | (69) |
| | **(46)** | 56 |
| New share capital subscribed | **531** | 567 |
| Opening shareholders' funds | **1,349** | 726 |
| Closing shareholders' funds | **1,834** | 1,349 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## 16. RECONCILIATION OF OPERATING (LOSS)/PROFIT TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

GROUP

| | **2003** | 2002 |
|---|---|---|
| | **£'000** | £'000 |
| Operating (loss)/profit | **(647)** | 566 |
| Amortisation of intangible fixed assets | **59** | 13 |
| Depreciation of tangible fixed assets | **129** | 99 |
| (Profit)/loss on sale of tangible fixed assets | **(5)** | 1 |
| Decrease in stocks | **120** | 179 |
| Decrease in debtors | **314** | 23 |
| (Decrease in creditors) | **(340)** | (427) |
| Increase/ (decrease) in provision for liabilities and charges | **3** | (10) |
| Net cash (outflow)/inflow from operating activities | **(367)** | 444 |

## 17. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

GROUP

| | **2003** | 2002 |
|---|---|---|
| | **£'000** | £'000 |
| (Decrease)/ increase in cash in the year | **(887)** | 374 |
| Cash outflow from financing | **—** | 3 |
| Change in net debt resulting from cash flows | **(887)** | 377 |
| Net funds at 1 November 2002 | **1,151** | 774 |
| Net funds at 31 October 2003 | **264** | 1,151 |

## 18. ANALYSIS OF CHANGES IN NET FUNDS/DEBT

GROUP

| | 1 November 2002 £'000 | Cashflow £'000 | Acquisition (excluding cash and overdrafts) £'000 | Other non-cash changes £'000 | **31 October 2003 £'000** |
|---|---|---|---|---|---|
| Cash at bank and in hand | 1,151 | (887) | — | — | **264** |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

### 19. PURCHASE OF SUBSIDIARY UNDERTAKINGS

| | 2003 | 2002 |
|---|---|---|
| | £'000 | £'000 |
| **Net assets acquired** | | |
| Tangible fixed assets | **412** | — |
| Stocks | **20** | — |
| Debtors | **54** | — |
| Cash at bank and in hand | **256** | — |
| Creditors | **(201)** | — |
| Finance leases | **(206)** | — |
| | **335** | — |
| **Satisfied by** | | |
| Shares allotted | **335** | — |

Adept Polymers Limited expended £35k of the Group's operating cash flows, paid £nil in respect of net returns on investments and servicing of finance and paid £nil in respect of taxation.

### 20. CAPITAL COMMITMENTS

The Group had no capital commitments at 31 October 2003 and 31 October 2002.

### 21. COMMITMENTS UNDER OPERATING LEASES

At 31 October 2002 the Group had annual commitments under non-cancellable operating leases as follows:

| | 2003 | 2002 |
|---|---|---|
| | £'000 | £'000 |
| Land and buildings: | | |
| Expiring in less than one year | **—** | 38 |
| Expiring between two and five years | **48** | — |

The above represents a subsidiary company's commitment to make payments under a non-cancellable operating lease in respect of property.

### 22. PENSION COMMITMENTS

The Group makes contributions to personal pension plans schemes based on contractual terms. The contribution charge for the year was £11k (2002: £13k).

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

**23. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS**

The Group's financial instruments arise directly from its operations comprising some liquid resources as well as trade debtors and creditors. As can be seen from the consolidated cash flow statement there has been a net decrease in cash resources.

FOREIGN CURRENCY RISK

Where the Group makes sales overseas a significant proportion is invoiced in currency other than sterling. It has not entered into forward foreign currency contracts but it does take active risk management steps in order to manage the risks involved.

INTEREST RATE RISK

When applicable details as to borrowings and associated interest rates would be disclosed in note 10. The rates charged are at a percentage over Barclays' base rate.

LIQUIDITY RISK

The Group ensures short-term flexibility through the use of the overdraft facilities although these were not used during the year.

In view of this, the Board does not at present consider that it is necessary to adopt a detailed borrowings policy.

**24. CONTRACTS IN WHICH DIRECTORS HAVE AN INTEREST**

Philip Lovegrove (Chairman) is also a Director of Fiske plc who were appointed by the Board as Brokers to the Company on 10 October 2003.

Fiske plc have been engaged to provide stock-broking services to the Company for which a fee of £15,000 per annum is payable.

**25. CONTINGENT LIABILITIES**

On 20 October 2003, the Company's subsidiary Stanelco Fibre Optics Ltd issued proceedings in the High Court against BioProgress plc specifically in response to a letter sent to the Company by solicitors acting for BioProgress claiming certain rights to the Company's patents and patent applications for "Radio Frequency (RF) welding water soluble film for making capsules".

The Company considers that the BioProgress claims are entirely without merit and will be strongly resisted.

We are advised that the potential contingent liability for legal costs of successfully pursuing this claim could be in the order of £90k.

**26. CONTROL**

There is no ultimate controlling party for the Company.

**27. RELATED PARTY TRANSACTIONS**

During the period the Company had no related party transactions.

# NOTICE OF ANNUAL GENERAL MEETING

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 immediately.

If you have sold or transferred all of your ordinary shares in Stanelco PLC, you should immediately forward this document and, where appropriate the accompanying Form of Proxy, to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

NOTICE IS HEREBY GIVEN that the 2003 Annual General Meeting of the members of Stanelco PLC will be held on 3 June 2004 at 2.30 pm at Eversheds LLP, Senator House, 85 Queen Victoria Street, London EC4V 4JL for the following purposes:

**Ordinary business**

1. To receive and adopt the Report of the Directors and audited Financial Statements for the year ended 31 October 2003.
2. To receive and approve the Directors' Remuneration Report for the year ended 31 October 2003.
3. To declare a dividend.
4. To elect Mr Philip Lovegrove as a Director of the Company. Mr Lovegrove was appointed to the Board subsequent to the last Annual General Meeting and accordingly stands for election under the Company's Articles of Association.
5. To elect Mr Graham Whitchurch as a Director of the Company. Mr Whitchurch was appointed to the Board subsequent to the last Annual General Meeting and accordingly stands for election under the Company's Articles of Association.
6. To elect Mr Robert Duggan as a Director of the Company. Mr Duggan was appointed to the Board subsequent to the last Annual General Meeting and accordingly stands for election under the Company's Articles of Association.
7. To re-elect Mr Ian Balchin as a Director of the Company.
8. To re-appoint Jeffreys Henry, as auditors of the Company and to authorise the Directors to fix their remuneration.

**Special business**

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

9. THAT:
   (a) the Stanelco PLC Enterprise Management Incentive Scheme ("the Scheme"), to be constituted by the rules produced in draft to this Meeting and for the purpose of identification initialled by the Chairman thereof, the principal terms of which are summarised in Appendix 1 to this Notice of Annual General Meeting, is hereby approved and adopted; and

   (b) the Directors are hereby authorised to grant options, in accordance with the rules of the Scheme, to employees of the Group selected by the Remuneration Committee and to do all acts and things necessary to effect the grant of such options (including the making of such changes to the form of the option agreement used pursuant to the Scheme as may be necessary or desirable to comply with London Stock Exchange requirements and/or institutional requirements and/or any changes in legislation).

# NOTICE OF ANNUAL GENERAL MEETING
CONTINUED

10. THAT:
    (a) the Company be and is hereby authorised to grant an option to Graham Whitchurch to subscribe for 8,000,000 ordinary shares in the capital of the Company at a price of 3.5 pence per share and on the terms summarised in Appendix 2 to this Notice of Annual General Meeting;
    (b) the Company be and is hereby authorised to grant an option to Terry Robbins to subscribe for 8,000,000 ordinary shares in the capital of the Company at a price of 4.75 pence per share and on the terms summarised in Appendix 3 to this Notice of Annual General Meeting; and
    (c) the Directors be and are hereby authorised to do all acts and things necessary to effect the grant of such share options, including the making of any changes to the form of option agreement which may be necessary or desirable to comply with London Stock Exchange requirements and/or institutional requirements and/or any changes in legislation.
11. THAT:
    (a) the trust deed and rules of the Stanelco PLC Share Incentive Plan ("the Plan"), the main features of which are summarised in Appendix 4 to this Notice of Annual General Meeting be and are hereby approved; and
    (b) the Directors be and are hereby authorised to:
        (i) make awards subject to and in accordance with the rules of the Plan and to make all decisions and exercise all discretions on behalf of the Company for the purposes of the operation of the Plan;
        (ii) do all such acts and things as they may consider necessary or desirable to implement and operate the Plan including, without limitation, making any changes which they consideration necessary to maintain the approval of the Plan by the Inland Revenue;
        (iii) make such amendments to the Plan and/or any documents ancillary to it as in the opinion of the Directors may be necessary or desirable (or as may be consequential thereon) to comply with overseas securities laws, exchange control, taxation and/or other legislation and to do all acts and things necessary or desirable to give effect to such amendments; and
        (iv) vote and be counted in a quorum or any matter connected with the Plan notwithstanding that they may be interested in the same, except that no Director may be counted in a quorum or vote in respect of his own participation, and any provisions of the Articles of Association of the Company be and are hereby relaxed to that extent accordingly.

**Notes**

Copies of the draft agreements setting out the terms of the options to be granted to Graham Whitchurch and Terry Robbins, the rules of the Stanelco PLC Enterprise Management Incentive Scheme and the rules and Trust Deed relating to the Stanelco PLC Share Incentive Plan will be available for inspection between 09.00 and 17.00 on any weekday (Saturdays, Sundays and public holidays excepted) from the date of despatch of this document until the close of the Meeting at the offices at offices of Eversheds LLP, Senator House, 85 Queen Victoria Street, London EC4V 4JL and at the place of the Meeting for at least 15 minutes prior to and during the Meeting.

**Special business**

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

12. THAT the authorised share capital of the Company be and is hereby increased from £885,000 divided into 885,000,000 Ordinary shares of 0.1p to £1,100,000 divided into 1,100,000,000 Ordinary shares of 0.1p each by the creation of an additional 215,000,000 Ordinary shares of 0.1p each;

# NOTICE OF ANNUAL GENERAL MEETING
CONTINUED

13. THAT

(i) The Directors be and they are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 ("the Act") (and in substitution for any existing power to allot relevant securities) to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80 of the Act) up to an aggregate nominal amount of £327,774.61 (being the nominal amount of the present authorised but unissued share capital of the Company), such authority to expire at the conclusion of the Annual General Meeting of the Company next following the Meeting at which this Resolution is passed or fifteen months after the date of the Meeting, whichever is the earlier, save that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities to be allotted after such expiry and the Directors may allot such relevant securities pursuant to such an offer or agreement as if the power conferred hereby had not expired.

(ii) The Directors be and they are hereby empowered pursuant to Section 95 of the Act (in substitution for any existing authority to allot relevant securities) to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority conferred by this Resolution and to sell relevant shares (as defined in Section 94 of the Act) held by the Company as treasury shares (as defined in Section 162A of the Act) for cash as if Section 89(1) of the Act did not apply to any allotment or sale provided that this power shall be limited to:

(a) The allotment of equity securities and the sale of treasury shares in connection with or pursuant to an offer by way of rights, open offer or other pre-emptive right in favour of holders of ordinary shares and other persons entitled to participate by way of rights where the equity securities attributable to the interests of all holders of Ordinary shares and such other persons holding (or as appropriate to the number of such shares which such other persons are for these purposes deemed to hold) are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient for the purpose of dealing with fractional entitlements or legal or practical problems under the laws, or the requirements of any regulatory body or any stock exchange, in any territory; and

(b) The allotment (otherwise than pursuant to sub-paragraph (ii) (a) of this Resolution) of equity securities up to an aggregate nominal amount of £38,611.27

and such power shall expire at the conclusion of the Annual General Meeting of the Company next following the Meeting at which this Resolution is passed or fifteen months after the date of the Meeting, whichever is the earlier, save that the Company may at any time before such expiry make an offer or agreement which would or might require equity securities to be allotted or treasury shares to be sold pursuant to such offer or agreement to be allotted after such expiry and the Directors may allot equity securities or sell treasury shares in pursuance of such offer or agreement as if the power conferred hereby had not expired; and words and expressions defined in or for the purposes of Part IV of the Act shall in this Resolution bear the same meanings.

14. THAT

authority is hereby generally and unconditionally given pursuant to Section 166 of the Act, for the Company to make market purchases (as defined in Section 163(3) of the Act) of any of its own Ordinary shares of 0.1p each in such manner and on such terms as the Directors may from time to time determine provided that:

(a) the authority hereby given shall, unless previously varied, revoked or renewed, expire at the conclusion of the Annual General Meeting of the Company next following the Meeting at which this resolution is passed or fifteen months after the date of the Meeting, whichever is the earlier, but so that the Company shall be entitled under such authority to conclude at any time before such expiry any contract or purchase of its own Ordinary shares which would or might be executed wholly or partly after the expiry of such authority and to make a purchase of its own shares after such time limit in pursuance of such a contract of purchase;

# NOTICE OF ANNUAL GENERAL MEETING
CONTINUED

(b) the maximum number of shares hereby authorised to be acquired is 77,222,539 Ordinary shares of 0.1p each (being approximately 10 per cent. of the current issued Ordinary share capital of the Company); and

(c) the maximum price which may be paid for each Ordinary share of 0.1 pence each is an amount equal to 105 per cent. of the average of the prices of the business done in the Ordinary shares of the Company derived from the London Stock Exchange Daily Official List for the ten business days preceding the day of purchase and the minimum price is 0.1 pence.

BY ORDER OF THE BOARD

Robert E Duggan
*Secretary*

14 January 2004

*Registered Office*
Systems House
Brunel Way
Segensworth East
Fareham
Hampshire
PO15 5SD

NOTES

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not also be a member of the Company.
2. A Form of Proxy for the use of members who are unable to attend the meeting in person is attached. To be valid the completed Form of Proxy and the power of attorney (if any) under which it is signed, or a notarially certified copy of that power, must be deposited with the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not later than 48 hours before the time appointed for holding the meeting.
3. The completion and return of the Form of Proxy does not preclude a member from attending the meeting and voting in person.
4. The register of Directors' interests will be available for reference at the commencement of, and during the Annual General Meeting.
5. There are no contracts of service of the Directors with the Company, or its subsidiaries, the unexpired portion of the terms of which are not less than one year or which are not terminable within one year without payment of compensation.

# APPENDIX 1

TO THE NOTICE OF ANNUAL GENERAL MEETING

Set out below is a summary of the principal features of the Stanelco plc Enterprise Management Incentive Scheme ("the Scheme").

**1. Status of the Scheme**

The Scheme is designed to enable the Company to grant Enterprise Management Incentive ("EMI") share options in accordance with the requirements of Schedule 5 to the Income Tax (Earnings and Pensions) Act 2003 ("Schedule 5").

**2. Eligibility**

All employees of the Group who:

(a) commit at least 25 hours per week or 75 per cent. of their working time to the Group; and

(b) do not hold, either alone or with an associate, a material interest in the Company (that is, a direct or indirect interest in, or an ability to control, 30 per cent. or more of the Company's shares)

will be eligible to be nominated for participation in the Scheme.

**3. Administration**

The Scheme will be administered by the remuneration committee of the Board of Directors ("the Committee"). The Committee will have absolute discretion in selecting the persons to whom options under the Scheme are to be granted and (subject to the limits set out below) in determining the number and terms of options to be so granted. No person is entitled as of right to be granted an option.

Options will relate to new ordinary shares to be issued by the Company ("Shares").

**4. Subscription price**

The holder of an option under the Scheme will be entitled to acquire Shares at a subscription price to be determined by the Committee at the time when the option is granted. The subscription price will not be less than the market value of the Shares as at the date of grant.

**5. Limits**

No more than 15 per cent. of the Company's issued share capital from time to time will be made subject to options under the Scheme or options under any other employees' share scheme established by the Group.

The Scheme is also subject to any statutory limits set out in Schedule 5.

Benefits under the Scheme will not be pensionable.

**6. Grant periods**

Options may normally be granted within 42 days following the preliminary announcement of the annual or half year results of the Company in any year. Options may also be granted at other times if the circumstances are sufficiently exceptional to justify the grant of such options.

No options may be granted more than ten years after the date of adoption of the Scheme.

# APPENDIX 1
CONTINUED

**7. Exercise and lapse of options**

Options will not be transferable and may normally only be exercised between the third and tenth anniversaries of the date of grant by a person who remains a Director or employee. Options may, however, be exercised for a limited period after the option holder ceases to be employed within the Group in certain special circumstances, including the death, retirement, redundancy, ill-health, injury or disability of the option holder or where the option holder's employing company or business is disposed of outside the Group or, at the discretion of the Committee, in any other circumstances. Special provisions apply in the event of a takeover or liquidation of the Group.

Options will normally lapse on the expiry of any of the periods allowed for exercise. Options will also lapse at the expiry of ten years from the date of grant.

**8. Issue and listing of shares**

Shares issued on the exercise of an option will rank *pari passu* with existing shares except for any rights attached to such shares by reference to a record date prior to the date of allotment. If appropriate, the Company will use its reasonable endeavours to obtain admission to the Official List for any shares so allotted.

**9. Variations in share capital**

In the event of any variation of or increase in the share capital of the Company, the number of shares subject to options and/or the subscription price may be adjusted as appropriate. No such adjustment may be made without the prior written confirmation of the Group's auditors that it is in their opinion fair and reasonable.

**10. Amendments**

Although the Board of Directors will have the power to amend the provisions of the Scheme, the provisions relating to:

10.1 the participants to whom options are provided under the Scheme;

10.2 the limitations on the number of shares over which options may be granted under the Scheme;

10.3 the maximum entitlement for any participant under the Scheme; and

10.4 the basis for determining a participant's entitlement to, and the terms of, an option and for the adjustment thereof in the event of a capitalisation issue, rights issue or open offer, sub-division or consolidation of shares or reduction of capital or any other variation of capital,

cannot be altered to the advantage of participants without the prior approval of shareholders in general meeting (except for minor amendments to benefit the administration of the Scheme, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for the Company or any other member of the Group).

# APPENDIX 2

TO THE NOTICE OF ANNUAL GENERAL MEETING

The Group has confirmed to Graham Whitchurch that, subject to the prior approval of the shareholders of the Company, an option (the "Option") on the following terms would be granted to him.

## 1. The Option

The Option is to be granted over 8,000,000 ordinary shares in the capital of the Company (the "Shares") at an exercise price of 3.5 pence per share (being the closing middle-market price of a Share as derived from the Official List on 1 September 2003).

## 2. The effective date

The effective date of the Option will be 1 September 2003.

## 3. Exercise of the Option

The Option will lapse at the expiry of ten years from the effective date.

The Option will not be exercisable before the expiry of three years from the effective date.

If Graham Whitchurch ceases to be employed for any reason other than for unfair or wrongful dismissal his Option will lapse unless the Group determines otherwise. If Graham Whitchurch ceases to be employed as a result of unfair or wrongful dismissal, the Option will be exercisable after the expiry of three years from the effective date.

## 4. Non-transferable

The Option is personal to Graham Whitchurch and may not be transferred or assigned. Benefits under the Option will not be pensionable.

## 5. Tax and National Insurance contributions

Graham Whitchurch will make the necessary arrangements or agreements and complete all necessary documentation to ensure that at the time of exercise the Group is supplied with sufficient funds to enable it to account to the Board of Inland Revenue for any income tax and any employees' NICs liability that may arise and any secondary Class 1 NICs liability that may arise on the Group on the exercise of the Option.

## 6. Amendment

The Option cannot be amended to the advantage of Graham Whitchurch without the prior approval of the shareholders in general meeting (except for minor amendments which benefit the administration of the option, take account of a change in legislation or obtain or maintain favourable tax treatment, exchange control or regulatory treatment for Graham Whitchurch or the Group).

# APPENDIX 3

TO THE NOTICE OF ANNUAL GENERAL MEETING

The Group has confirmed to Terry Robbins that, subject to the prior approval of the shareholders of the Company, an option (the "Option") on the following terms would be granted to him.

## 1. The Option

The Option is to be granted over 8,000,000 ordinary shares in the capital of the Company (the "Shares") at an exercise price of 4.75 pence per share (being the closing middle-market price of a Share as derived from the Official List on 1 November 2003).

## 2. The effective date

The effective date of the Option will be 1 November 2003.

## 3. Exercise of the Option

The Option will lapse at the expiry of ten years from the effective date.

The Option will not be exercisable before the expiry of three years from the effective date.

If Terry Robbins ceases to provide services to the Company for any reason other than for unfair or wrongful dismissal his Option will lapse unless the Group determines otherwise.

## 4. Non-transferable

The Option is personal to Terry Robbins and may not be transferred or assignable. Benefits under the Option will not be pensionable.

## 5. Tax and National Insurance contributions

Terry Robbins will make the necessary arrangements or agreements and complete all necessary documentation to ensure that at the time of exercise the Group is supplied with sufficient funds to enable it to account to the Board of Inland Revenue for any income tax and any employees' NICs liability that may arise and any secondary Class 1 NICs liability that may arise on the Group on the exercise of the Option.

## 6. Amendment

The Option cannot be amended to the advantage of Terry Robbins without the prior approval of the shareholders in general meeting (except for minor amendments which benefit the administration of the option, take account of a change in legislation or obtain or maintain favourable tax treatment, exchange control or regulatory treatment for Terry Robbins or the Group).

# APPENDIX 4

TO THE NOTICE OF ANNUAL GENERAL MEETING

Set out below is a summary of the principal features of the Stanelco PLC Share Incentive Plan ("the Plan").

## 1. Eligibility

All eligible employees of the Company and participating subsidiaries are entitled to participate in the Plan. An eligible employee is any person who:

1.1 is an employee (including an Executive Director) of the Company or a subsidiary of the Company as at the date on which he/she agrees to participate;

1.2 has been such an employee for a period of 6 months prior to the date on which an award is made under the Plan;

1.3 does not have and has not had a material interest in a close company whose shares may be appropriated under the Plan or a company which controls such a company;

1.4 is not participating in a profit sharing scheme approved under Schedule 9 of the Income and Corporation Taxes Act 1988 or a share incentive plan approved by the Inland Revenue under Schedule 2 of the Income Tax (Earnings and Pensions) Act 2003 which provides for free shares to be appropriated to employees without payment or for shares to be acquired on behalf of employees out of sums deducted from their salary (other than the Plan); and

1.5 is a UK resident taxpayer.

## 2. Operation of the Plan

The Company may give free shares up to a maximum value of £3,000 per employee in a tax year.

If the Company wishes, the award of free shares may be conditional on the achievement of performance targets which must be notified to all employees. Otherwise, free shares must be awarded to employees on the same terms (except that the Company may vary the size of awards by reference to remuneration, length of service or hours worked).

## 3. Amendments to the Plan

The Plan does not provide for amendments to be made to the rules. Therefore, no amendment to the advantage of participants may be made to provisions relating to:

3.1 who can participate;

3.2 the individual and overall limits on participation;

3.3 the basis for determining a participant's entitlement to Plan Shares and the terms on which they can be acquired; and

3.4 any adjustment in the event of a variation of the Company's share capital,

3.5 without the prior approval of the shareholders in general meeting.

## 4. The Trustees of the Plan

By the Trust Deed which forms part of the Plan, the Company has appointed Carole Williams, Robert Duggan and Barry Hozier as the Trustees of the Plan. The Trustees will be required to acquire free shares and allocate those shares to the eligible employees in accordance with the rules of the Plan.

The Trustees are prohibited from disposing of any free shares (whether by transfer to the participant or otherwise) during a holding period of between three and five years (to be determined by the Company) following the date of the award. This obligation is subject to certain qualifications which relate to a participant's power to give certain directions to the Trustees, the Trustees' power to dispose of shares for certain express purposes and the Trustees' duty to transfer shares to a former employee when his employment has ended.

## 5. Benefits

Benefits under the Plan are non-pensionable.

Produced by Portman Lodge Limited

# FORM OF PROXY

To be used for the ANNUAL GENERAL MEETING of Stanelco PLC, to be held on 3 June 2004 at 2.30 pm at Eversheds LLP, Senator House, 85 Queen Victoria Street, London EC4V 4JL.

I/We the undersigned being the holder(s) of Ordinary shares of 0.1p each in the above-named Company

HEREBY APPOINT ..........................................................................................................................................
failing whom, the Chairman of the Meeting, as my/our proxy to attend for me/us at the Annual General Meeting of the Company and at any adjournment thereof and to vote in my/our name(s) and on my/our behalf as shown in respect of the Resolutions mentioned below.

| **Ordinary Resolutions** | **For** | **Against** |
|---|---|---|
| 1 To adopt the accounts for the year ended 31 October 2003 | | |
| 2 To receive and approve the Directors' Remuneration Report for the year ended 31 October 2003 | | |
| 3 To declare a dividend | | |
| 4 To elect Mr Philip Lovegrove | | |
| 5 To elect Mr Graham Whitchurch | | |
| 6 To elect Mr Robert Duggan | | |
| 7 To re-elect Mr Ian Balchin | | |
| 8 To re-appoint Jeffreys Henry as Auditors | | |
| 9 To approve the EMI share option details proposed by the Directors | | |
| 10 To approve the share options in respect of G Whitchurch and T Robbins proposed by the Directors | | |
| 11 To approve the Trust Deed and Rules of the Stanelco PLC Share Incentive Plan | | |
| **Special Resolutions** | | |
| 12 To approve the increase in the authorised share capital to 1,100,000,000 Ordinary 0.1p shares | | |
| 13 Authority to allot shares and non application of pre-emption rights | | |
| 14 Authority to purchase own shares | | |

Name (in full) ..........................................................................................Date ..................................................
(IN BLOCK LETTERS)

Signature ..........................................................................................................................................

Address ..........................................................................................................................................

Notes:

1. To be valid, this Form of Proxy must be completed, signed by the apppointor or his duly authorised attorney, if any, and lodged with the Company's registrars, Capita Registrars of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not later than 48 hours before the time appointed for the Annual General Meeting or any adjournment thereof, together with the power of attorney or other authority.
2. Please indicate your voting instructions by inserting a cross (X) in the appropriate box. If no instruction is given, the proxy may vote as he thinks fit or abstain from voting.
3. In the case of joint holders only one need sign. 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, and for this purpose seniority will be determined by the order in which the names stand in the Register of Members in respect of the joint holding.
4. You may appoint any person, whether or not a member of the Company, as a proxy, but in default of specific appointment the Chairman of the Meeting will act as your proxy. The appointment of a proxy does not prevent you from attending and voting in person at the Annual General Meeting or any adjournment thereof.
5. In the case of a corporation, the Form of Proxy must be executed under its Common Seal or under the hand of a duly authorised officer or attorney.

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BUSINESS REPLY SERVICE
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First fold

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

Third fold and tuck in