BioPlastics

RF Applications

STANELCO PLC

Annual Report and Financial Statements for the year ended 31 December 2008

Stanelco

BioPlastics

RF Applications

Officers and advisers

Executive Directors

Paul R Mines	Chief Executive
Susan J Bygrave[1]	Group Finance Director

Non-Executive Directors

Elizabeth J Filkin	Senior Independent Director
John F Standen	Chairman

Company Secretary

Donna R Simpson[2]

Registered Office	**Registrars**
Starpol Technology Centre	Capita Registrars
North Road	Northern House
Marchwood	Woodsome Park
Southampton	Fenay Bridge
Hampshire SO40 4BL	Huddersfield
	West Yorkshire HD8 0GA

Company Registration No 1873702 (England and Wales)

Auditors

Grant Thornton UK LLP
No 1 Dorset Street
Southampton
Hampshire SO15 2DP

Solicitors

Osborne Clarke
One London Wall
London EC2Y 5EB

Bankers

Royal Bank of Scotland plc
Conqueror House
Vision Park
Histon
Cambridge CB24 9NL

Investor Relations

Financial Dynamics
Holborn Gate
26 Southampton Buildings
London WC2A 1PB

[1] Group Finance Director with effect from 5 January 2009
[2] Company Secretary with effect from 2 January 2009

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Chairman's statement

This has been another successful year for Stanelco with continued strong growth in revenue and gross profit and significant progress against the Group's strategy of exploiting its intellectual property in the Bioplastics and Radio Frequency (RF) markets. In both divisions, experienced teams have been put in place to develop a focused portfolio of new products, a number of which have already been sold or are undergoing extended customer trials.

Results

Group revenues increased by £6.7m to £14.8m in the year ended 31 December 2008, an increase of 84% compared with the previous year.

A significant proportion of this growth (£5.0m) was achieved by the Group's Biotec subsidiary whilst sales of bioplastics made directly by Stanelco also increased by £1.4m, up 385% compared with the previous year. The BioPlastics division also benefitted from a £0.3m receipt in settlement of a claim for royalties for an item of intellectual property. In RF, sales revenues were maintained whilst work was completed on a number of new product designs.

Gross profit for the year increased from £1.9m to £2.8m, however, the gross margin was impacted by higher raw material costs in the BioPlastics division and reduced to 19% (2007: 23%). Some of these increased costs have now been passed on to customers.

The loss from operations for the year reduced to £2.8m (2007: £5.6m) despite increased investment in the development and commercialisation of the Group's products. The loss before taxation was £0.5m (2007: £5.0m), delivering a loss per share of 0.010 pence (2007: 0.169 pence).

Our cash position at the year end was £6.4m, with close management of working capital during the year limiting the net cash outflow from operating activities to just £1.4m (2007: £5.1m).

Strategy

The Group's strategy continues to be to seek ways to profitably develop and exploit the intellectual property in its BioPlastics and RF divisions.

We believe that the most commercially rewarding area for shareholders is BioPlastics, therefore that is where the majority of our strategic focus is being placed. The recession in the wider markets generally does not seem to be affecting the growth prospects for this division and that is very encouraging, although there may be some loss of peripheral business. We see substantial growth potential ahead in the short and medium term and our challenge is to capture as much of it as possible.

The BioPlastics division is focussing on working closely with existing and potential customers to tailor the functionality of Stanelco's products to the customers' specific requirements ready to move on to higher volume production. In setting up a UK development facility working closely with a knowledgeable business development team we have already had significant success, with a number of customer trials leading on to production orders.

Our biodegradeable products are manufactured in Germany by Biotec, our joint venture (JV) with SPhere. SPhere is Biotec's largest customer and part of our strategy is to increase the level of sales made directly by Stanelco. Stanelco has a "golden share" in the JV which allows us to include 100% of its results in the Group's financial statements. This golden share expires on 31 December 2009. Thereafter, it is expected that the Group will consolidate only 50% (its share) of the JV into its results.

The RF Division is already established as the pre-eminent supplier of RF furnaces to the optical fibre market and here the strategy is to widen the product offering by developing a number of complementary products that can be sold alongside the furnaces or independently. New products developed during the year include a new generation of RF generators, a newly designed induction heater and a portable RF welder.

Board and employees

We are delighted to welcome Sue Bygrave to the Board as Group Finance Director. Sue has a proven track record in delivering organic and acquisitive growth in small to medium sized listed businesses and this will be invaluable as the Group moves into its next phase of growth. Clive Warner stepped down from this position on 1 January 2009 – the Board thanks him for his considerable contribution and wishes him all the best for the future.

A number of other key individuals have joined the senior management team during the year, bringing into the Group a wealth of experience in the bioplastics and RF markets. Our success this year is very much down to them and the unerring support of our other employees. I would like to thank them all for their past and on-going efforts for the Group and believe we have strong teams working at all levels across the business to continue to achieve growth.

Outlook

This year we have delivered strong top line growth and made significant progress with product development. The business has a good platform for growth with its two divisions and a strong, experienced team. Although the economic environment surrounding us has changed, we continue to work closely with a number of customers with the potential to deliver further substantial increases in revenue, while considering acquisition opportunities that would allow us to significantly scale the business and improve shareholder value.

John Standen
Chairman

25 March 2009

Chief Executive's statement

Performance

I am pleased to report another year of improving performance and considerable progress against our new strategy of achieving commercialisation of our products. Having generated initial momentum in sales growth, we are now seeking to build on this while also improving margins in the business.

Looking ahead we are seeking to accelerate sales growth with both existing and new customers whilst broadening our product portfolio and geographic location of our sales.

Operational Review

STANELCO BIOPLASTICS

The BioPlastics business has continued to make progress with sales up from £7.0m to £13.7m. We constrained the loss to £0.8m - this was better than we anticipated. Further progress was restricted by raw material increases mid-year and the requirement for continued investment in further technology development.

Stanelco's direct sales of bioplastics increased from £0.4m in 2007 to £1.8m in 2008 as a new commercial team began to build the customer relationships and trust that are essential for commercialising this technology.

The end-uses in which Stanelco's bioplastics are now found (or are being trialled for) increased considerably in the year. Our materials can now be found in flexible films, horticultural products, bottles and tubes, fibres, capsules and injection moulded items to name just a few.

Markets

In 2008 bioplastic demand in Europe increased by over 20% from 2007, in line with consensus forecasts of market development over the next 5 years.

The growth last year was driven by two significant factors:

1. Increasing public concern and legislation with regard to plastic waste disposal and the toughening European laws on waste segregation (increasing the use of municipal composting and anaerobic digestion).
2. Brand owners adopting "bio-credentials" and functionality to differentiate their product ranges.

Further, it is becoming clear that as concerns about both climate change and oil-security have risen, the bioplastic demand drivers have now grown to include carbon capture and oil-replacement. Despite vigorous programmes to reduce, re-use and recycle oil based plastics, some 5% of global oil production is still used in the manufacture of such plastics with their eventual disposal by incineration (and consequent carbon dioxide release) or by landfill.

It is in this arena that bioplastics have a role in helping to address climate change and oil-scarcity issues by providing materials which capture carbon dioxide in production and reduce dependence on fossil-based scarce resource.

Technical Development

The pilot/development unit at our HQ in Southampton has been very active through 2008. Over 100 internal trials were undertaken through the year in the search for improved functionality and lower cost bioplastics. Further investment in pilot and testing equipment is expected for this unit in 2009. 48 trials were carried out at customer premises, as properties of new materials were explored and our customers evaluated both existing and new products, and we were very pleased that over 60% of these led to production orders.

Bioplastics remain at an early stage of development in comparison with their oil based equivalents. Stanelco continues to invest in research and development that seeks to improve the functional properties on these materials in carefully selected areas.

The growing technical team have also been active in supporting customer trials in locations from Manchester to Mexico. This team is building its understanding of how Stanelco's bioplastic materials behave on a wide variety of processing equipment which is normally used for the transformation of petrochemical based plastics. This knowledge base is enabling quicker deployment of new products.

Commercial Activity

The commercial team built sales and developed relationships with important customers through the year. Marketing activity has been targeted at the conversion area of the supply chain as well as on brand owners. It has been pleasing to see that a number of blue chip customers are now using or evaluating Stanelco's bioplastics and we have begun to develop some important development relationships.

These activities were further enhanced in the year with the re-opening of a presence in North America. An individual has been engaged to lead this drive who has had 10 years of successful experience developing sales of biomaterials in the NAFTA region. This re-engagement in North America is being undertaken with limited overheads and in a targeted manner. The early signs from this work are promising with a greater level of customer contact and pre-commercial trials particularly in the areas of personnel care, electronics and horticulture.

Production

Biotec manufactures biodegradable products from its base in Germany to support the sales and manufacturing activities of Stanelco and SPhere. Stanelco holds a "Golden Share" in the ownership arrangement with SPhere until 31 December 2009. Following the lapse of the Golden Share, shareholder control at Biotec will move to a 50/50 basis and Stanelco will no longer consolidate 100% of Biotec.

Biotec is a capable and modern automated facility that, although it remains unproven by demand, may be able to flex up to 20,000 tonnes per annum in its current footprint/configuration. The local team coped well with the 2008 demand increases demonstrating significant flexibility. There is clear capability well above existing demand levels and no further capital investment of note is planned.

Other Revenue

In other product areas, royalty and commission agreements continue in place for Quantum Finish with Reckitt Benckiser. FrogPack, a novel cardboard box, is being marketed by Packology under a revenue sharing agreement. This follows extensive testing by Packology that has demonstrated enhanced strength properties. FrogMat, a re-pulpable protective packaging with cushioning properties, has been licensed to Monosol. Additional royalty payments of £0.3m were received in the year, in settlement of a claim for royalties with regard to the Aquasol portfolio. The company continues to license or sell IP where it considers others are best placed to exploit any inherent opportunity.

Biotec Litigation

Novamont S.p.A ("Novamont") has brought proceedings against Biotec Biologische Naturverpackungen GmbH & Co KG, Germany ("Biotec") claiming infringement of the French and Italian designations of Novamont's European Patent Numbers EP 0 327 505, EP 0 947 559 and EP 0 937 120 (the "Novamont Patents").

Biotec is defending these claims robustly. The proceedings are continuing and a judgment is not expected for between 6 months and 2 years for either the French or the Italian proceedings. Stanelco and Biotec continue to take professional and technical advice with regard to this litigation and are confident of a successful outcome.

STANELCO RF APPLICATIONS

RF sales increased by 2% while the loss from operations before exceptional items was reduced to £0.1m from £0.3m, with robust cost management.

The majority of the business continues to be spread across RF furnaces for the optical fibre market, plastics welders for a wide variety of applications and associated spares and service.

The business has launched a variety of new products which have been welcomed by the customers and have begun to test the boundaries of the RF technology. In December we shipped the largest fibre optic furnace system we have built, this included Stanelco's new induction generator.

Development activity continues with investment in a number of product areas where we believe that competitive advantage can be achieved.

The business has begun to broaden its RF product offering into new areas such as induction heating and has had early success. These are market areas where the business had competed historically and retains the brand awareness and technical capability to perform and grow.

Neil Martin was appointed General Manager of the business in June. The team was also further reinforced at a commercial level later in the year. Sales channels have been further enhanced with representation in USA, India and China.

Whilst the enquiry level remains robust, we are conscious that investment in capital goods is often discretionary in recessionary times.

Financial review

Review of operations

Group revenues increased in the year from £8.1m to £14.8m driven primarily by increased BioPlastics sales, as demonstrated in the table below:

	2008 £'m	2007 £'m	
Revenue by business activity			
BioPlastics	13.7	7.0	96%
RF Applications	1.1	1.1	2%
Total	**14.8**	**8.1**	**84%**
Loss from operations (before exceptional items)			
BioPlastics	(0.8)	(0.7)	
RF Applications	(0.1)	(0.3)	
Central Costs	(1.9)	(2.1)	
Total	**(2.8)**	**(3.1)**	

The cost base also increased in the BioPlastics division as a new team was recruited in the UK to push forward product development and take responsibility for customer sales. These additional costs included those resulting from the establishment of a technical development team and pilot facility in Southampton and the creation of a European and US sales presence, all considered essential to drive revenue growth. The BioPlastics' cost base was also impacted adversely by an increase in raw material costs during the year (which significantly impacted the Group's gross margin) and the movement in the Euro exchange rate which increased (in Sterling terms) the running costs of the Group's German subsidiary, Biotec. The exchange rate movement did, however, increase the gross profit of Biotec and the value of the goodwill.

In the RF division, revenues were maintained whilst new products were developed. The restructuring of the business that took place in 2007 delivered a lower cost base and the losses in the division reduced as a result.

There were no exceptional items in 2008, so the reported loss from operations was also £2.8m (2007: £5.6m). Product development costs of £0.4m (2007: £nil) were capitalised in the year. Tax R&D claims resulted in a tax credit for the year of £169,000 (2007: charge of £31,000).

Finance related income, including foreign exchange gains, totalled £2.3m for the year (2007: £0.6m). This included a £1.9m gain (2007: £0.5m) relating to the retranslation of an intercompany loan between Stanelco and Biotec. The loss before tax for the year was £0.5m (2007: £5.0m), giving a loss per share of 0.010p (2007: 0.169p).

Cashflow

The net cash outflow from operating activities was £1.4m, down from £5.1m the previous year. The closing cash position was £6.4m.

Key performance indicators (KPIs)

The Board is focussed on a number of Key Performance Indicators (KPIs) that are used to measure performance.

The Group's performance against these metrics for 2008 was as follows:

a) Financial measures

Growth in total revenues	- increased by £6.7m (84%)
Growth in bioplastic revenues from direct sales by Stanelco plc	- increased by £1.4m (385%)
Growth in total gross margin	- increased by £1.0m (52%)
Reduction in loss from operations before exceptional items	- reduced by £0.3m (10%)

b) Other measures

Number of sets of customer trials in BioPlastics	- 48
Percentage of trials leading to production orders	- 60%
New product launches in RF	- 5

Employees

There were several further additions at senior level to reinforce our commercial and technical capabilities. Despite this, average employee numbers reduced to 48, down from 54 in the previous year.

I recognise the outstanding contribution made by Stanelco staff, who have delivered high levels of growth through this year and who continue to focus on developing successful products and business.

Paul Mines
Chief Executive Officer

25 March 2009

Directors' report

The directors present their Annual Report and the audited financial statements of Stanelco plc for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Group's operations are focussed in two distinct areas; Bioplastics and Radio Frequency. The BioPlastics division produces a biodegradeable and sustainable range of products under the BioPlast brand. Such products are capable of replacing conventional oil-based plastics and have diverse application including flexible films, moulded products, extruded sheets and food wraps. The Radio Frequency (RF) division has worldwide renown in the design and installation of specialist RF furnaces, welders and induction equipment.

The subsidiary undertakings affecting the profits or net assets of the group in the year are listed in Note 11 to the financial statements.

BUSINESS REVIEW

A review of the Group's business and an indication of likely future developments is contained within the Chairman's Statement and the Chief Executive's Statement on pages 3 to 8. These statements are incorporated into this Report by reference.

RESULTS AND DIVIDENDS

The financial results of the Group are set out in the consolidated income statement on page 35.

The directors do not recommend payment of a dividend (2007: nil per share).

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the nature of the Company's strategy are subject to a number of risks. The directors have set out below the principal risks facing the business. The directors continually review the risks identified below and, where possible, processes are in place to monitor and mitigate such risks.

Political, economic and regulatory environment

The Group is subject to political, economic and regulatory factors in the various countries in which it operates. There may be a change in government regulation or policies which materially and/or adversely affect the Group's ability to successfully implement its strategy.

The directors aim to keep abreast of developments as they affect these factors and modify their strategy where this is appropriate.

Fluctuations in exchange rate may affect product demand in different regions and may adversely affect the profitability of products provided by the Group in foreign markets where payment is made for the Group's products in local currency.

The directors are informed regularly of the potential impact of exchange rate movements on the business and act to mitigate any adverse movements wherever possible.

The Group's products and manufacturing processes utilise a number of raw materials and other commodities. The markets for these materials and commodities may be subject to high price volatility.

The Group continually seeks to reduce its dependence on a small number of raw materials. It negotiates best possible prices and actively seeks new sources of raw material.

Some of the Group's products are employed in the food and pharmaceutical industries, both of which are highly regulated. There is a risk that the Group may lose contracts or be subject to fines or penalties for any non-compliance with the relevant industry regulations.

The Group ensures staff are well versed in the regulatory environment of its end use industries and regularly reviews its product portfolio to ensure compliance with relevant regulations.

Intellectual property

Although the Group attempts to protect its intellectual property, there is a risk that patents will not be issued with respect to applications now pending. Furthermore, there is a risk that patents granted or licensed to Group companies may not be sufficiently broad in their scope to provide protection against other third party technologies.

The Group takes professional advice from experienced patent attorneys and works hard to win patents applied for and to ensure that the scope is sufficiently broad.

Competition

There is a risk that competitors may be able to develop products and services that are more attractive to customers than the Group's products and services.

The Group aims to be ahead of the competition and its continual development targeted with specific customer requirements should keep it ahead.

Commercialisation

There is a risk that the Group will not be successful in the commercialisation of its products.

The Group develops many products and some may not prove to be successful. The directors ensure that regular reviews of product development are undertaken so that unsuccessful developments can be terminated early in their life cycle.

Financial risks

The Group uses various financial instruments including cash, lease finance, equity and various items such as trade receivables and trade payables that arise directly from its operations. The existence of these instruments exposes the Group to a number of financial risks, the main ones being exchange rate risk, liquidity risk, interest rate risk and credit risk. The directors review and agree policies for managing each of these risks and these are summarised in Note 25 to the financial statements.

KEY CONTRACTUAL ARRANGEMENTS

There are no contractual arrangements which are considered essential to the business of the Group.

RESEARCH AND DEVELOPMENT

The continuous advancement of technology and processes by the Group means costs are incurred each year in research and development. For the year under review these costs amounted to £541,000 (2007: £442,000), of which £399,000 (2007: £nil) was capitalised.

ENVIRONMENT

The Group is committed to the care of the environment, the prevention of pollution and the maintenance of environmental controls as they relate to the business. The Group ensures that all its activities are carried out in conformance with the applicable environmental legislation. An essential feature of environmental management is a commitment to improving environmental performance and reducing the environmental impacts of travelling, waste generation and disposal. This is achieved by setting annual environmental improvement objectives and targets, which are regularly monitored and reviewed.

EMPLOYEES

One of the Group's key assets is the technical know-how which is embedded in its employees. People are the key driver of the Group's success through their technical and management capabilities. It is, therefore, essential that the Group attracts the best people and retains and develops those who are already working for it. The Group consequently tries to provide attractive, competitive renumeration structures and give on-going training to develop its skill base.

The Group's policy is that, where it is reasonable and practicable within existing legislation, all employees, including disabled persons, are treated in the same way in matters relating to the employment, training and career development.

CHARITABLE DONATIONS

During the year the Group did not make any charitable donations (2007: £nil).

GOING CONCERN

The directors have reviewed forecasts and budgets for the coming year, which have been drawn up with appropriate regard for the current macroeconomic environment and the particular circumstances in which the Group operates. These were prepared with reference to historic and current industry knowledge, taking future growth into account. As a result of this process, at the time of approving the financial statements, the directors consider that the Company and the Group have sufficient resources to continue in operational existence for the foreseeable future, and accordingly, that it is appropriate to adopt the going concern basis in the preparation of the financial statements.

As with all business forecasts, the directors' statement cannot guarantee that the going concern basis will remain appropriate given the inherent uncertainty about future events.

POST BALANCE SHEET EVENTS

There are no post balance sheet events.

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 25 March 2009.

	Ordinary shares of 0.1p each	
	Percentage	Number
Schroder Investment Management Limited	10.94	336,624,143
Barclays plc	10.89	335,364,836
TD Waterhouse Nominees (Europe) Limited	3.89	119,738,975

SHARE CAPITAL AND CONTROL

The share capital of the Company, issued and unissued, consists entirely of one class of ordinary shares of 0.1p each. Each share ranks equally and carries the same rights to vote and receive dividends. No restrictions exist on the transfer or holding of the shares. Full details of the rights and obligations attaching to the Company's shares, in addition to those conferred by their holders by law, are set out in the Company's Articles of Association, a copy of which can be obtained by writing to the Company Secretary.

At the AGM held on 28 April 2008, the directors were authorised to allot equity securities for cash up to a maximum of five per cent of the issued share capital. The directors intend to renew this authority at the next AGM on 24 April 2009 when this authority will expire. At the present time the directors have no plans to exercise this authority.

At the last AGM the directors were given the power to repurchase equity securities up to a maximum of ten per cent of the issued share capital. The power expires at the end of the next AGM and the directors intend renewing this authority. Purchases of shares by the company will only be undertaken where they are in the best interests of the Company and its shareholders. Shares repurchased in accordance with the authority will either be cancelled or held to help the Company meet its existing share option plans.

At the last AGM the directors were given the power to allot relevant securities up to an aggregate nominal amount of authorised but un-issued shares representing approximately a third of the issued share capital. On 9 June 2008, the directors used this authority to issue 66,488,404 ordinary shares to settle deferred consideration in respect of the acquisition of the Company's subsidiary Aquasol Limited. The directors intend renewing their authority at the next AGM when this power expires.

The Company offers a number of share plans for its employees. The rights attached to ordinary shares which are the subject of awards within any of the Company's share plans are not available until any share award or option is exercised and the shares are allotted or transferred to that awardee.

Changes to the Articles of Association must be approved by special resolution of the Company. New Articles are being proposed at the AGM on 24 April 2009 to reflect principally the changes imposed by the introduction of the Companies Act 2006. Explanatory notes relating to these changes are included in the appendix to the Notice of Meeting set out on pages 72 to 78 of this Report.

The directors do not believe there are any significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a successful takeover bid.

There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment that occurs because of a successful takeover bid.

DIRECTORS AND DIRECTORS' INTERESTS

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

	Ordinary shares of 0.1p each	
	31 December 2008	31 December 2007
Elizabeth J Filkin (Senior Independent Non-Executive Director)	**—**	—
Paul R Mines (Chief Executive)	**1,000,000**	—
John F Standen (Chairman)	**2,000,000**	2,000,000
Clive H Warner (Group Finance Director)	**—**	—

Clive H Warner resigned as Group Finance Director on 1 January 2009 and Susan J Bygrave was appointed in this position on 5 January 2009.

The above directors had no non-beneficial interests in the shares of the Company.

Share options granted to directors are set out in the Directors' Remuneration Report on pages 20 to 23. Except as disclosed in that report, there were no other transactions between directors and the Company or its subsidiaries.

In accordance with the Articles of Association the appointment of new directors must be ratified by the shareholders at the AGM following their appointment. In addition, one third of the directors of the Company must retire by rotation and seek re-election by the shareholders at each AGM. Every director should seek re-election by shareholders at least every three years.

Accordingly, Susan J Bygrave, having been appointed as a director since the last AGM stands for election at the forthcoming AGM and John F Standen retires by rotation and also offers himself for re-election.

BOARD OF DIRECTORS

Further to the changes noted above the Board of Directors comprises:

John F Standen, Age 60, Non Executive Chairman

John is currently Non-Executive Director of Lavendon Group plc and Non-Executive Chairman of Xploite plc. He is also Chairman of Council at the University of Hull. John was previously Non-Executive Chairman of Reg Vardy plc until its sale in 2006. He spent his career in corporate finance and was Chief Executive of BZW Corporate Finance before retiring from Barclays Bank plc in 1998.

Elizabeth J Filkin, Age 68, Senior Independent Non Executive Director

Elizabeth was Parliamentary Commissioner for Standards. She is Chairman of the Association of Television on Demand; Chairman of The Advertising Advisory Committee; Non Executive Chairman of Annington Homes plc and a Non Executive Director of Jarvis plc.

Paul R Mines, Age 45, Chief Executive Officer
For the 8 years to 2006, Paul was CEO of Betts Group Holdings Ltd having led a management buy-out of the company from Courtaulds plc. An engineer with an MBA from London Business School, Paul spent his earlier career at Courtaulds plc and ICI plc. He is currently Non-Executive Chairman of CEL-F Solar Systems Limited and a Director of Windmine Limited and Sulgrave Road Management Company Limited.

Susan J Bygrave, Age 43, Group Finance Director
Sue was appointed Group Finance Director on 5 January 2009. Prior to joining Stanelco, she was Group Finance Director of VEGA Group plc, a specialist professional services group listed on the London Stock Exchange. Prior to this she worked for Mettoni Group plc, DCS Group plc and KPMG, with whom she qualified as a chartered accountant.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

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 parent company and the group as at the end of the financial year and of the profit or loss of the group for the financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). The directors have elected to prepare the parent company financial statements in accordance with IFRSs. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable International Financial Reporting Standards as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors, to the best of their knowledge, state that:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the group together with a description of the principal risks and uncertainties that it faces .

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PAYMENT POLICY AND PRACTICE

It is the Group'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 period end amount to 47 days' purchases (2007: 182 days), based on average supplier invoicing during the year.

ANNUAL GENERAL MEETING

The AGM will be held on Friday 24 April 2009 at Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB. The meeting will commence at 10.30am.

AUDITORS

Grant Thornton UK LLP have expressed their willingness to continue in office. In accordance with Section 489(4) of the Companies Act 2006 a resolution to reappoint Grant Thornton UK LLP as auditors of the Company will be proposed at the forthcoming AGM.

By Order of the Board

Donna R Simpson
Company Secretary

25 March 2009

Corporate governance report

The Group is committed to business integrity, high ethical values and professionalism in all its activities. As an essential part of this commitment the Group supports the highest standards in corporate governance. The Board is accountable to the company's shareholders for good governance and this statement and the Directors' Remuneration Report describe how the principles of good governance set out in the 2006 Combined Code on Corporate Governance ("the Combined Code"), published by the Financial Reporting Council are applied within the company.

Compliance

The company complied throughout the year with the provisions of, and applied the principles of, the Combined Code.

The company's auditors, Grant Thornton UK LLP, are required to review whether the above statement reflects the company's compliance with the nine provisions of the Combined Code specified for its review by the Listing Rules and to report if it does not reflect such compliance.

The Board

Throughout 2008, the board comprised the non-executive chairman, one other non-executive director and two executive directors. On 1 January 2009 the group finance director, Mr C Warner, resigned from the board and was replaced on 5 January 2009 by Ms S Bygrave. Biographical details of each of the directors, which illustrate their range of experience, are set out in the Directors' Report on pages 9 to 14.

The non-executive directors are considered by the board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement.

The division of responsibilities between the non-executive chairman and chief executive is clearly established and is understood by the board. The non-executive chairman is responsible for the overall strategy of the Group with the chief executive officer being responsible for implementing the strategy and for the day to day running of the Group.

The senior independent director is Ms E Filkin and she is the director whom shareholders may contact if they feel their concerns are not being addressed through the normal channels. The non-executive directors meet at least once a year without the executive directors present.

The individual committee responsibilities of the directors are as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
J F Standen (Non-Executive Chairman)	Chairman	Member	Member	Chairman
E J Filkin (Senior Independent Non-Executive Director)	Member	Chairman	Chairman	Member
P R Mines (Chief Executive)	Member	*	*	*
S J Bygrave[1] (Group Finance Director)	Member	*	*	*

[1]Appointed 5 January 2009

All directors are subject to election at the AGM immediately following their appointment and to re-election every three years.

The chairman and senior non-executive director provide a wide range of skills and experience to the Group. They bring an independent judgement on issues of strategy, performance, risk and people through their contribution at board and committee meetings. After careful consideration, the Board has again concluded that Mr Standen and Ms Filkin were independent throughout the year. In arriving at this conclusion the Board has applied the criteria set out in provision A.3.1 of the Combined Code. Mr. Standen's shareholding in the Company is considered to be too small to affect his independence.

Board Procedures

The board met formally on 14 occasions during the year and individual attendance at those and the Board Committee meetings is set out in the table below. All board members are supplied with information in a form and of a quality appropriate to enable them to discharge their duties. Board and committee papers are sent out as appropriate before meetings take place.

There is an agreed Schedule of Matters reserved for the board for collective decision including:

- determining the strategy and control of the Group
- amendments to the structure and capital of the Group
- approval of financial reporting and internal controls
- approval of capital and revenue expenditure of a significant size
- acquisitions and disposals; and
- corporate governance matters and approval of Group policies and risk management strategies.

To enable the board to perform its duties effectively all directors have full access to all relevant information and to the services of the Company Secretary whose responsibility it is for ensuring that board procedures are followed. The appointment and removal of the company secretary is a matter reserved for the board. On 1 January 2009 Mr C Warner resigned as Company Secretary and was replaced on 2 January 2009 by Ms D Simpson.

There is an agreed procedure whereby directors wishing to take independent legal advice in the furtherance of their duties may do so at the company's expense. Appropriate training is available to all directors on appointment and on an ongoing basis as required.

The terms of reference for each of the Board Committees is available on request from the company secretary.

Attendance at Board and Committee Meetings

The following table shows the attendance of directors at meetings of the board and of the Audit, Remuneration and Nomination Committees of the board during the year to 31 December 2008.

	Board	Audit Committee	Remuneration Committee	Nomination Committee
J F Standen	14	2	4	2
E J Filkin	14	2	4	2
P R Mines	14	*	*	*
C H Warner[1]	14	*	*	*
Number of meetings in the year	14	2	4	2

Where an asterisk appears in the table the director listed is not a member of the committee.
[1]Resigned 1 January 2009

Board Effectiveness

During the year an appraisal of the board, each Board Committee, and the performance of the individual directors was carried out. The appraisal of the board and the committees was undertaken using questionnaires which were completed by each director as appropriate. A summary of the responses was reviewed by the chairman prior to the submission of the results to the whole board.

Relations with Shareholders

The company recognises the importance of communicating with its shareholders, including its employee shareholders, to ensure that its strategy and performance are understood. This is achieved principally through the Interim Report, the Annual Report and the AGM. In addition, a range of corporate information is available to investors on the company's website.

The Chairman, the Chief Executive and the Finance Director are primarily responsible for investor relations. Feedback from major shareholders is reported to the board and discussed at its meetings. Formal presentations are made to institutional shareholders following the announcement of the company's full year and interim results. The board recognises that the AGM is the principal forum for dialogue with private shareholders. All directors normally attend the AGM and are available to answer any questions that shareholders may wish to raise.

The Notice of Meeting is sent to shareholders at least 20 days before the meeting. Shareholders vote on a show of hands, unless a poll is validly called and after each such vote the number of proxy votes received for and against the resolution is announced.

The Remuneration Committee

The Remuneration Committee operates under written terms of reference and is comprised of the chairman and the independent non-executive director. Details can be found in the Directors' Remuneration Report on pages 20 to 23.

Nomination Committee

The Nomination Committee operates under written terms of reference. Its principal duty is the nomination of suitable candidates for the approval of the board to fill executive and non-executive vacancies on the board. The Nomination Committee comprises the non-executive chairman and the independent non-executive director. The meetings of the committee are chaired by the chairman. The committee's responsibilities include:

- regularly reviewing the structure, size and composition including the skills, knowledge and experience required of the board compared to its current position and make recommendations to the board with regard to any changes
- giving full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the company and what skills and expertise are therefore needed on the board in the future
- being responsible for identifying and nominating for the approval of the board candidates to fill board vacancies as and when they arise
- before making an appointment, evaluating the balance of skills, knowledge and experience on the board and, in the light of this evaluation prepare a description of the role and capabilities required for a particular appointment
- keeping up to date and fully informed about strategic issues and commercial changes affecting the company and the market in which it depends
- reviewing annually the time required for non-executive directors. Performance evaluation should be used to assess whether the non-executive directors are spending enough time to fulfil their duties
- ensuring that on appointment to the board, non-executive directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside board meetings
- keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace
- advising the board on succession planning for executive board appointments; and
- considering any other matters the board may request.

Following the appointment of a new director, the chief executive in conjunction with the Company Secretary, is responsible for ensuring that a full, formal and tailored induction to the company and to their function within the company is given.

Towards the end of the year, on behalf of the board, the committee undertook a search for the appointment of a new Group Finance Director. The committee followed a formal and transparent search process. It prepared a job description and candidate specification against which to evaluate candidates and employed an external recruitment consultancy to provide a shortlist of suitable candidates for interview by the Chief Executive and committee members. After careful consideration of the candidates, the committee made a recommendation to the board which subsequently resulted in the appointment of Ms S Bygrave on 5 January 2009.

Audit Committee

The Audit Committee operates under written terms of reference, which were reviewed during the year, meets at least twice a year and is comprised of both non-executive directors. Ms Filkin, the senior non-executive director, chairs the committee. The committee, taken as a whole, is considered to have significant recent and relevant financial experience. The chief executive and finance director normally attend meetings by invitation and the committee also meets with the external auditors without management present.

The external auditors attended all of the meetings (in part if appropriate) and have direct access to the committee chairman. The company secretary acts as secretary to the committee. The chairman of the committee attends the AGM to respond to any shareholder questions that might be raised on the committee's activities.

The committee's responsibilities include:

- reviewing the effectiveness of the Group's financial reporting and internal control procedures for the identification, assessment and reporting of risks
- reviewing with the external auditors the nature and scope of their planned work
- reviewing the half year and annual financial statements before submission to the board, focusing particularly on:
  - any changes in accounting policies and practices
  - major judgemental areas
  - significant adjustments resulting from the audit
  - the going concern assumption
  - compliance with accounting standards
  - compliance with applicable stock exchange and legal requirements.
- discussing any problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of the executive directors and other management, where necessary)
- reviewing the cost-effectiveness, independence and objectivity of the external auditors
- considering the major findings of internal investigations and management's response; and
- considering any other matters the board may request.

The committee has the power to engage outside advisers if it considers it to be necessary.

The committee met twice during the year and its agenda is linked to events in the company's financial calendar. The agenda is mostly cyclical such that the committee chairman approves the agenda on behalf of all members.

The committee also liaises with the external auditors on the continuity and rotation of key partners from the external auditors in accordance with the Ethical Standards of the ICAEW.

The Group policy on the provision by the external auditors of audit and non-audit services, which is based on the principle that the external auditors should only undertake non-audit services where they are the most appropriate provider, categorises such services between:

- auditor permitted services – those services which are acceptable for the auditors to provide and the provision of which can be engaged without referral to the Audit Committee. (e.g. regulatory and other specialist financial reporting)
- auditor excluded services – those engagements that the Audit Committee and the board do not consider appropriate for the auditors to undertake. (e.g. provision of outsourced financial or operational management functions)
- auditor authorised services – those services for which it is appropriate to consider the use of the external auditors and for which the specific approval of the Audit Committee is required before the auditors are permitted to provide the service (e.g. transaction support and advisory work, such as due diligence).

The policy defines the types of services falling under each category and sets out the criteria to be met and the internal approvals required prior to the commencement of any assignment. The Audit Committee reviews an analysis of all services provided by the external auditors. The policy is reviewed annually by the Audit Committee and approved by the board.

The disclosure of the fees payable to Grant Thornton UK during the year are set out in Note 4 to the financial statements. The external auditors and committee chairman have regular dialogue concerning matters of independence and a report is made formally to the committee on this matter at least once a year. The Audit Committee is satisfied with the level of fees, independence, objectivity and effectiveness of Grant Thornton UK LLP. Accordingly a resolution for the re-appointment of Grant Thornton UK LLP as auditors of the company will be proposed at the forthcoming AGM.

The Group does not have a dedicated internal audit function. The board annually reviews the need for such a function and has done so during the year. During the year, there were no adverse trends evident from the monitoring of internal controls or unexpected or unacceptable results of a material nature and this has led the board to conclude that at present a dedicated internal audit function is not necessary. The board will continue to keep this matter under review.

Risk Management and Internal Control

The board is responsible for the Group's system of internal control and for reviewing its effectiveness. It is the role of management to implement the board's policies on risk and control through the design and operation of appropriate internal control systems. For the whole of the year under review and up to the date of approval of the Annual Report and Financial Statements, the board has had formal procedures in place to ensure that it is in a position to consider all the significant aspects of internal control and has worked closely with the external auditors in assessing and ensuring their effectiveness.

The board has conducted its annual review of the effectiveness of the Group's system of internal control.

This review has covered all controls including operational, compliance and risk management procedures, as well as financial. The process is summarised as follows:

- Operating management is charged with the ongoing responsibility for identifying risks facing each of the operating units and for putting in place procedures to mitigate, manage and monitor risks
- Operating units review all business risks and set out the significant risks to the operations, the controls in place and additional controls which could be implemented
- The risk and control identification and management process is monitored and periodically reviewed by Group executive management
- The key elements of the controls framework within which the Group operates are:
  - an organisational structure with clearly defined lines of responsibility, delegation of authority and reporting requirements
  - an embedded culture of openness of communication between operating company management and the Group executive management on matters relating to risk and control
  - defined expenditure authorisation levels
  - operating reviews covering all aspects of each business are conducted by Group executive management each month
  - a comprehensive system of financial reporting. An annual budget for each operating company is prepared in detail and approved by the chairman and the chief executive. The board approves the overall Group's budget and plans. Monthly actual results are reported against budget and prior year and the forecast for the year is revised where necessary. Any significant changes and adverse variances are questioned by the board and remedial action is taken where appropriate. There is daily cash reporting to the Group Finance Director and periodic reporting to the board on the Group's tax and treasury position.

The system of internal control is designed to manage rather than eliminate the risk of failing to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The risk framework as outlined above, gives reasonable assurance that the structure of controls in operation is appropriate to the Group's situation and that there is an acceptable level of risk throughout the business.

The board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group; that this has been in place for the year under review and up to the date of approval of the Annual Report and Financial Statements.

Directors' remuneration report

The Remuneration Committee comprises the two non-executive directors and is chaired by Elizabeth J Filkin, Senior Independent Director. The Remuneration Committee advises the board on individual directors' remuneration packages. The Remuneration Committee met four times during the year to 31 December 2008. The Committee has access to independent advice where it considers it appropriate. The Remuneration Committee considers recommendations from the Chief Executive.

REMUNERATION POLICY

The remuneration policy is set by the board. The Remuneration Committee provides advice to the board on the remuneration package of each director. Directors take no part in decisions affecting their own remuneration. The main objectives of the company's executive remuneration policy are to provide remuneration packages that will attract, retain and motivate individuals of an appropriate calibre and ensure that the interests of the executive directors are aligned with those of the shareholders. The remuneration of executive directors consists of five elements: basic salary, a significant element of 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, but also having regard to the financial performance of the Group.

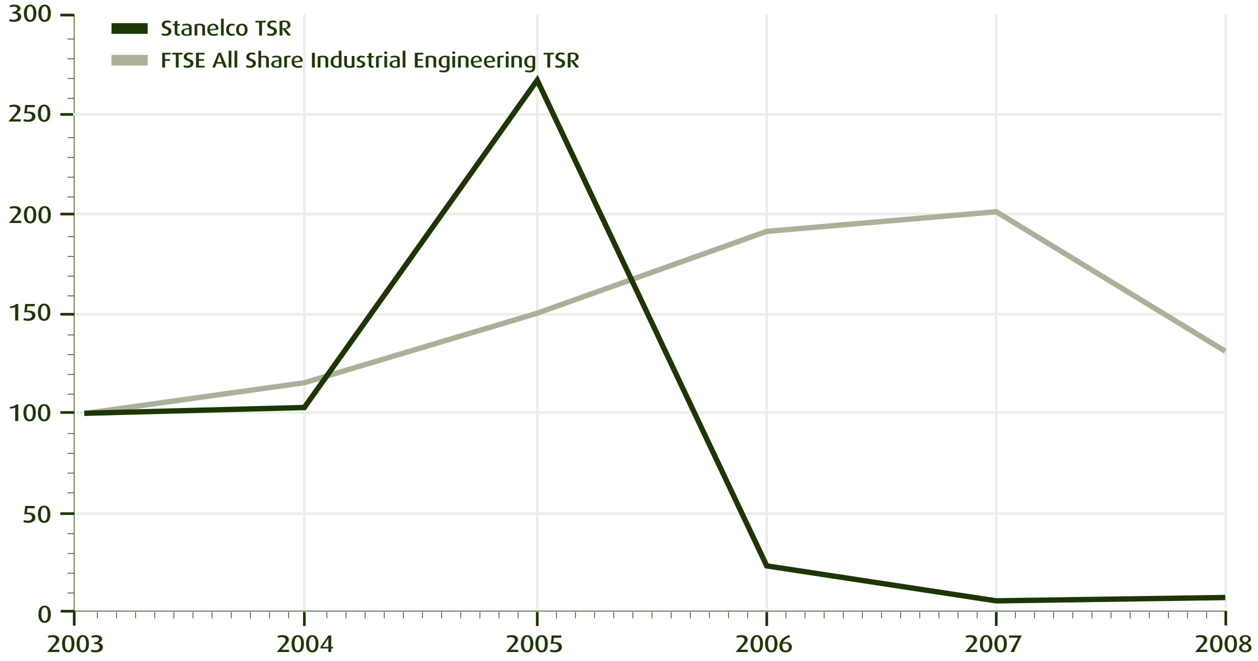
PERFORMANCE-RELATED INCENTIVES

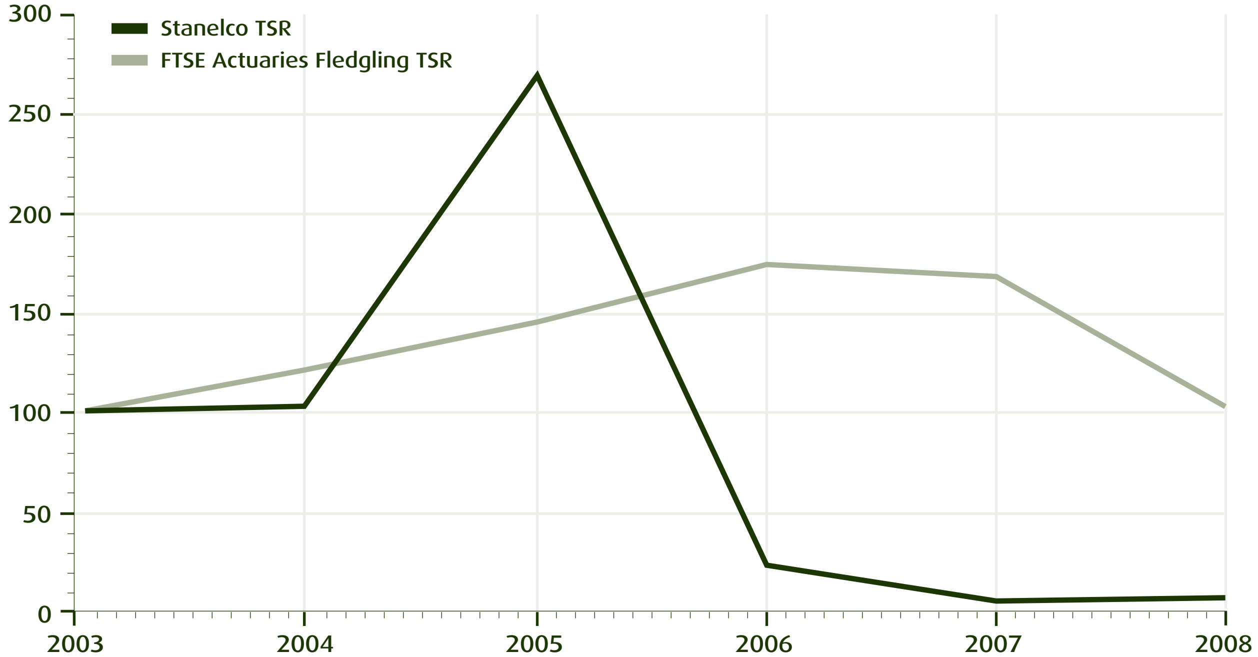
Annual performance-related incentives are considered and awarded based on the performance of both the individuals and the Group and are awarded on the recommendation of the Remuneration Committee. The amount awarded is determined at the end of the financial period by the Committee and takes into account the overall financial performance of the Group.

TOTAL SHAREHOLDER RETURN

The following graphs show the value at 31 December 2008 of £100 invested in the Company on 31 December 2003 compared with the value of £100 invested in the FTSE All Share Industrial Engineering Total Return Index, under which Stanelco PLC is listed, and the FTSE Fledgling Total Return Index. To produce a fair value, each point is a 30-day average of the relevant price/index.

Total shareholder return performance graphs





SHARE OPTIONS

The Remuneration Committee considers that long-term incentives should form an important part of senior executives' remuneration in order to reward the achievement of the company's growth, thereby aligning the interests of executives with the interests of shareholders. In this instance, the Committee considers share options are the most appropriate type of long-term incentive.

Since 2007, the policy of the Remuneration Committee has been to grant share options to a selected group of key executives (including the executive directors) under the terms of the Stanelco plc 2005 Unapproved Share Option Plan, up to a maximum value of 200 per cent of base salary in any one financial year. On expiration of three years from the date of grant, if the share price of the company's shares is equal to Xp then 25 per cent of the options will become available for exercise. The proportion of options available will increase pro rata up to 100 per cent if the share price is Yp or greater. For grants made on 4 July 2007, X and Y were 2.0p and 5.0p respectively. For all subsequent grants X and Y have been 1.0p and 2.5p respectively.

The Committee considers that the use of absolute share price targets provides the clearest and simplest alignment at this time between executive rewards and the returns to shareholders.

The Committee intends to grant further share options following the AGM in accordance with this policy.

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 Director	Termination notice company	Renewable
Non-Executives				
Elizabeth J Filkin	1 Sept 2003	None	None	Annually
John F Standen	26 Feb 2007	None	None	Annually
Executives				
Paul R Mines	16 April 2007	4 months	12 months	Normal retirement date
Susan J Bygrave	5 Jan 2009	6 months	12 months	Normal retirement date

PENSIONS

The company makes contributions to individual pension schemes for the executive directors at 10 per cent of basic salary. Contributions in respect of Clive Warner, who resigned on 1 January 2009, were made at 6 per cent of basic salary.

The non-executive directors do not receive any pension contribution.

DIRECTORS' SHARE OPTIONS

Stanelco plc 2005 Unapproved Share Option Plan and Stanelco plc Employment Benefit Trust.

As at 31 December 2008, the following options had been appointed to sub trusts by the Trustees of the Stanelco plc Employee Benefit Trust for the benefit of the following directors and their families:

	Date Granted	Date exercisable	Date option lapses	Exercise price	Ordinary Shares of 0.1p each 31 December 2007
Paul Mines	4 July 2007	4 July 2010	4 July 2017	0.52p	57,692,308
	28 April 2008	28 April 2011	28 April 2018	0.80p	37,500,000
Clive Warner[1]	4 July 2007	4 July 2010	4 July 2017	0.52p	46,153,846
	28 April 2008	28 April 2011	28 April 2018	0.80p	30,000,000

[1]Clive Warner resigned on 1 January 2009. Prior to his departure, and as part of his final settlement, he agreed that options over 5,000,000 of the company's ordinary shares that had been granted to him on 13 March 2006 at an exercise price of 15.18p should lapse.

At 1 January 2007 the options above granted on 4 July 2007 and 13 March 2006 were held by the Trustees of the Stanelco PLC Employee Benefit Trust for the general benefit of directors and employees. The Board had announced, however, on 5 July 2007, its intention to issue a letter (in due course) to the Trustees asking them to appoint the options to the sub trusts above.

The exercise price of the options granted under the above scheme is equal to the market value of the shares at the time when the options were granted. The performance conditions attached to the share options are detailed on page 22.

The company's share price on 31 December 2008 was 0.32p (31 December 2007: 0.25p) and traded during the period at prices between 0.18p and 1.08p (2007: 0.24p and 1.4p).

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

DIRECTORS' REMUNERATION DURING THE YEAR

	Year ended 31 December 2008						
	Base salary/fees	**Bonuses**	**Car allowances**	**Benefits in kind**	**Compensation for loss of office**	**Total**	Year ended 31 December 2007 Total
	£	**£**	**£**	**£**	**£**	**£**	£
Paul R Mines	**150,000**	**37,500**	**9,600**	**670**	**—**	**197,770**	173,905
Clive H Warner	**120,000**	**30,000**	**8,400**	**1,710**	**100,223**	**260,333**	178,054
John F Standen	**45,000**	**—**	**—**	**—**	**—**	**45,000**	37,500
Elizabeth J Filkin	**25,000**	**—**	**—**	**—**	**—**	**25,000**	23,333
Total	**340,000**	**67,500**	**18,000**	**2,380**	**100,223**	**528,103**	412,792

The Company made contributions to individual pension schemes as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
	£	£
Paul R Mines	**15,000**	10,635
Clive H Warner	**12,600**	7,200
	27,600	17,835

By Order of the Board

Elizabeth J Filkin
Chairman of the Remuneration Committee

25 March 2009

Report of the Independent auditor

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF STANELCO PLC

We have audited the Group and Parent Company financial statements (the "financial statements") of Stanelco plc for the year ended 31 December 2008 which comprise the principal accounting policies, the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow statements, the Group and Parent Company Statements of Changes in Members' Equity and notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report 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 directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS's) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and the Chief Executive's Statement that is cross-referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, 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 regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Chief Executive's Statement and the Corporate Governance Report. 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 AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company'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 and the part of the Directors' Remuneration Report to be audited 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.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its loss for the year then ended
- the Parent Company financial statements give a true and fair view, in accordance with IFRS's as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008
- 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 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS

SOUTHAMPTON
25 March 2009

Principal accounting policies

BASIS OF PREPARATION
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 December 2008.

The financial statements have been prepared under the historical cost convention. The measurement bases and principal accounting policies of the Group are set out below.

The financial statements have been prepared on a going concern basis as the directors believe that the Group has access to sufficient resources to continue in business for the foreseeable future.

ADOPTION OF NEW AND REVISED STANDARDS
New standards and interpretations currently in issue but not effective for accounting periods commencing on 1 January 2008 are:

IAS 1 Presentation of Financial Statements (revised 2007) (effective 1 January 2009)

IAS 23 Borrowing Costs (revised 2007) (effective 1 January 2009)

Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009)

IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009)

Amendment to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations (effective 1 January 2009)

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements - Costs of Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 January 2009)

Amendment to IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items (effective 1 July 2009)

Amendment to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures About Financial Instruments (effective 1 January 2009)

Improvements to IFRSs (effective 1 January 2009 other than certain amendments effective 1 July 2009)

IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009)

IFRS 8 Operating Segments (effective 1 January 2009)

IFRIC 13 Customer Loyalty Programmes (IASB effective date 1 July 2008)

IFRIC 15 Agreements for the Construction of Real Estate (effective 1 January 2009)

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008)

IFRIC 17 Distributions of Non-cash Assets to Owners (effective 1 July 2009)

IFRIC 18 Transfers of Assets from Customers (effective prospectively for transfers on or after 1 July 2009)

Based on the Group's current business model and accounting policies, management does not expect material impacts on the figures in the Group's financial statements when the interpretations become effective. Management does anticipate a significant impact on disclosures in the financial statements arising from IAS 1 (revised 2007).

The Group does not intend to apply any of these pronouncements early.

BASIS OF CONSOLIDATION
The Group financial statements consolidate those of the company and all of its subsidiary undertakings drawn up to 31 December 2008. Subsidiaries are entities over which the Group has the power to control the financial and operating

policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights. At 31 December 2008 the subsidiary undertakings were Stanelco RF Technologies Limited, InGel Technologies Limited, Adept Polymers Limited, Aquasol Limited, Stanelco Inc, Biotec Holding GmbH Group, Biotec Biologische Naturverpackungen GmbH & Co KG and Biotec Biologische Naturverpackungen Forschungs–und Entwicklungs GmbH.

The Group's shareholding in Biotec is 50 per cent with the remaining 50 per cent owned by SPhere. However the Group is party to an agreement giving it a casting vote over all material decisions, therefore Biotec is accounted for as a subsidiary on the basis of control. The casting vote expires on 31 December 2009. After this date Biotec will cease to be fully consolidated.

The assets and liabilities of the Stanelco plc Employee Benefit Trust ("EBT") are included within the consolidated balance sheet on the basis that the Group has the ability to exercise control over the EBT.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. The Group elected not to apply IFRS 3, Business Combinations retrospectively prior to 1 November 2004.

GOODWILL

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the identifiable separable net assets acquired. Goodwill is recognised as an intangible asset and is subsequently measured for any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units. Cash-generating units to which the goodwill has been allocated and recognised as an asset are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. Any impairment is recognised immediately within administrative expenses in the income statement.

Goodwill written off to reserves prior to date of transition to IFRS at 1 November 2004 remains in reserves. There is no re-instatement of goodwill that was amortised prior to transition to IFRS. Goodwill previously written off to reserves is not written back to profit or loss on subsequent disposal.

REVENUE

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding VAT and trade discounts. Revenue is recognised upon the performance of services or transfer of risk to the customer.

Sale of goods

Revenue from the sale of goods occurs in the BioPlastics and RF Applications divisions. Revenue from sales of goods is recognised when all the following conditions have been satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, usually upon physical delivery of the goods to the customer, transfer of the goods to the customers nominated couriers.
- the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the Group, and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

The Group is involved in rendering services which include maintenance, consultancy and installation activities. When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of the transaction is deemed to be able to be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the entity
- the stage of completion of the transaction at the balance sheet date can be measured reliably and is estimated by reference to the proportion of time required to complete the service being complete and accepted by the customer at the balance sheet date, and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Where a contract for goods or services involves delivery of several different elements and is not fully delivered or performed by the year end, revenue is recognised based on the proportion of the fair value of the elements completed to the fair value of the overall contract. Servicing, maintenance and consultancy revenue is generally recognised on the date of delivery of the service.

Interest

Interest is recognised using the effective interest method which calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Royalties

Royalties are recognised on an accruals basis in accordance with the substance of the relevant agreement.

Royalty income is generally based upon a percentage of revenue of specific product within the licensee's portfolio. Income is recognised within the corresponding period within which the licensee's revenue was generated where this information is available. In the absence of revenue information from a licensee a best estimate is used as the basis of estimation. Royalty income in 2008 is entirely based upon information provided by the licensee and no estimates were required.

Dividends

Dividends are recognised when the shareholders right to receive payment is established.

INTANGIBLE ASSETS

Internally generated intangible assets are amortised on a straight-line basis over their useful lives.

Research and development

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

Development costs are capitalised when all the following conditions are satisfied:

- completion of the intangible asset is technically feasible so that it will be available for use or sale
- the Group intends to complete the intangible asset and use or sell it
- the Group has the ability to use or sell the intangible asset

- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the expenditure attributable to the intangible asset during its development can be measured reliably

Development costs not meeting the criteria for capitalisation are expensed in the period in which they are incurred. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Until completion of the development project, the assets are subject to impairment testing only. Amortisation commences upon completion of the asset, and is shown within 'Recurring Administrative Expenses' on the income statement.

Capitalised development costs are amortised over a period of five years.

Assets acquired as part of a business combination
In accordance with IFRS 3 Business Combinations, an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group.

PROPERTY, PLANT AND EQUIPMENT

Depreciation
Property, plant and equipment are stated at cost or valuation, net of depreciation and any provision for impairment. Leasehold equipment is included in property, plant and equipment only where it is held under a finance lease. No depreciation is charged during the period of construction.

Depreciation is provided on all property, plant and equipment at rates calculated to write off their cost less estimated residual value over their expected useful lives on a straight line basis, as follows:-

Property	3 to 20 years
Plant and Equipment	3 to 20 years
Fixtures and Fittings	5 to 10 years
Motor vehicles	4 years

Residual value and useful lives are reviewed at least annually.

Disposal of assets
The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement.

IMPAIRMENT TESTING OF GOODWILL, OTHER INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT
For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the directors monitor the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill, other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro-rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently re-assessed for indications that an impairment loss previously recognised may no longer exist.

LEASED ASSETS

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

INVENTORIES

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 based upon normal levels of activity.

TAXATION

Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

FINANCIAL ASSETS

Financial assets held by the group comprise loans and receivables. Financial assets are assigned to category by management on initial recognition, depending on the purpose for which they were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are recognised at fair value plus transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables, cash and cash equivalents are classified as loans and receivables.

Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

An assessment for impairment is undertaken at least at each balance sheet date. A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for derecognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for derecognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

FINANCIAL LIABILITIES

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance charges in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, demand deposits and highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

EQUITY

Equity comprises the following:
- "Share capital" represents the nominal value of equity shares
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares net of expenses of the share issue
- "Share options reserve" represents equity-settled share-based employee remuneration until such share options are exercised

- "Translation reserve" represents the differences arising from translation of investments in overseas subsidiaries
- "Retained losses" represents retained losses.

CAPITAL MANAGEMENT

The Group manages its Equity as capital. Equity comprises the items detailed within the principal accounting policy for equity and financial details can be found in the Group consolidated balance sheet. The Group adheres to the capital maintenance requirements as set out in the Companies Act.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the profit or loss in the period in which they arise.

The assets and liabilities in the financial statements of foreign subsidiaries and related goodwill are translated at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at the average monthly rate. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to the "Translation reserve" in equity. The Group has taken advantage of the exemption in IFRS1 and has deemed cumulative translation differences for all foreign operations to be nil at 1 November 2004.

PENSIONS

The Group makes payments to defined contribution schemes. Contributions to the defined contribution pension schemes are charged to income statement in the year in which they become payable.

SHARE-BASED PAYMENT

Equity settled share-based payment

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2005 are recognised in the financial statements. IFRS 2 has been applied to grants before 7 November 2002 only where the Group has disclosed publicly the fair value of those equity instruments, determined as at the grant date in accordance with IFRS 2.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions.

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to "share options reserve".

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of the attributable transaction costs are credited to share capital, and where appropriate share premium.

EMPLOYEE BENEFIT TRUST

The assets and liabilities of the Employee Benefit Trust (EBT) have been included in the Group accounts. Any assets held by the EBT cease to be recognised on the Group balance sheet when the assets vest unconditionally in identified beneficiaries.

The costs of purchasing own shares held by the EBT are shown as a deduction against equity. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Group income statement.

CRITICAL ACCOUNTING JUDGEMENTS

Areas where the directors believe critical accounting judgement is required are:-

Exceptional items

The directors consider that items of income or expense that are material by virtue of their nature and amount should be disclosed separately for the financial statements to accurately reflect the recurring operational and financial performance of the Group. These items have been referred to as 'exceptional items'.

All exceptional items are included in the income statement line item and are detailed in a note to the income statement.

Evaluation of levels of control and influence

The determination of level of influence the Group has over a business is often a mix of contractually defined and subjective factors that can be critical to the appropriate accounting treatment of entities in the consolidated accounts. In the case of Biotec, the Group's shareholding in Biotec is 50%. However the Group is party to an agreement giving it a casting vote over all material decisions and so Biotec is accounted for as a subsidiary on the basis of control. This casting vote expires on 31 December 2009.

Leasing

The group has a number of lease agreements. These agreements are classified and treated as either operating leases or finance leases, as defined under IAS17.

Finance leases are those where the terms of the lease substantially transfer the risks and rewards incidental to ownership of an asset. Finance leases are recognised on the balance sheet as an asset and a liability.

Operating leases are leases other than finance leases with the expense recognised in the income statement over the time period the asset is used.

Plant and machinery which has been subject to a sale and leaseback transaction has been classified as finance leases within the Group accounts in accordance with this policy.

Intragroup Balances

Intragroup balances and loans are all determined to be current and immediately repayable upon demand.

KEY SOURCES OF ACCOUNTING ESTIMATE

Goodwill and Investments

The directors make an assessment of the carrying value of goodwill and investments at least annually. For the purposes of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill and investments are allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill and investments, other individual assets or cash-generating units that include goodwill, other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Provisions
Within the Group there are a number of short term provisions. The carrying amount of the provisions is estimated based on the estimated net realisable value of inventories, recoverability of debtors and other likely costs.

Inventories
Inventories are assets held for sale in the ordinary course of business or in the form of materials, supplies or components to be consumed in production of finished goods or in rendering services. Inventory is recognised as an asset when the group has control over the inventory, expects it to provide future economic benefits and the cost of the inventory can be measured reliably.

Initial measurement of inventories is at cost. Subsequent to initial recognition the group measures inventories at the lower of cost or net realisable value. Inventory is derecognised when it is sold and recognised as an expense in the same period as the revenue from its sale has been recognised. Impairment losses are recognised as and when they occur. The write down is determined on an item by item basis or based on a group of items where such an assessment is not practical. In accordance with this policy during the year certain slow moving stock items were impaired by a value of £156,654 below their initial cost with the impairment expensed to the income statement.

Consolidated income statement

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 £'000	2007 £'000
REVENUE	1a – 1d, 2	**14,803**	8,064
Cost of sales	3, 12	**(11,976)**	(6,201)
GROSS PROFIT		**2,827**	1,863
Recurring administrative expenses	4a – 4b, 7	**(5,628)**	(4,979)
Exceptional items	5	**—**	(2,527)
LOSS FROM OPERATIONS		**(2,801)**	(5,643)
Loss from operations excluding exceptional items		**(2,801)**	(3,116)
Investment revenue		**371**	614
Finance charges	6	**(242)**	(458)
Foreign exchange gain		**2,205**	469
LOSS BEFORE TAXATION		**(467)**	(5,018)
Taxation	8a	**169**	(31)
LOSS FOR THE YEAR		**(298)**	(5,049)
Attributable to:			
Equity holders of the parent		**139**	(4,583)
Minority interest		**(437)**	(466)
RETAINED FOR THE YEAR		**(298)**	(5,049)
Basic and diluted loss per share – pence		**(0.010)**	(0.169)

The calculation of earnings per share is based on the loss after tax for the year of £298,000 (2007: loss of £5,049,000) and a weighted average of 3,049,093,286 (2007: 2,996,577,096) ordinary shares in issue.

Basic and diluted earnings per share are disclosed as equal due to losses arising in both periods presented.

Details of share options which could potentially dilute basic earnings per share in future periods are given in note 20.

Consolidated balance sheet

AS AT 31 DECEMBER 2008

	Note	2008 £'000	2008 £'000	2007 £'000	2007 £'000
NON-CURRENT ASSETS					
Goodwill	9	**16,746**		12,725	
Other intangible assets	9	**501**		216	
Property, plant and equipment	10a	**5,120**		4,364	
			22,367		17,305
CURRENT ASSETS					
Inventories	12	**2,502**		6,519	
Trade and other receivables	13a	**2,157**		1,878	
Cash and cash equivalents		**6,381**		8,059	
			11,040		16,456
TOTAL ASSETS			**33,407**		33,761
CURRENT LIABILITIES					
Trade and other payables	14a	**1,816**		4,765	
Amounts payable in respect of deferred consideration		**—**		466	
Promissory notes	16	**7,543**		5,672	
Obligations under finance lease	17	**294**		169	
Short term provisions	18a	**—**		441	
			9,653		11,513
NON-CURRENT LIABILITIES					
Obligations under finance lease	17	**899**		938	
			899		938
TOTAL LIABILITIES			**10,552**		12,451
NET ASSETS			**22,855**		21,310

Consolidated balance sheet continued

AS AT 31 DECEMBER 2008

	Note	2008 £'000	2007 £'000
EQUITY			
Share capital	19	**3,078**	3,012
Share premium account		**38,623**	38,199
Share options reserve	20	**494**	883
Translation reserves		**1,445**	102
Retained losses		**(24,917)**	(25,056)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**18,723**	17,140
Minority interest		**4,132**	4,170
TOTAL EQUITY		**22,855**	21,310

The financial statements were approved by the Board on 25 March 2009.

Signed on behalf of the Board of Directors

Paul R Mines (Chief Executive)

Susan J Bygrave (Group Finance Director)

25 March 2009

Company balance sheet

AS AT 31 DECEMBER 2008

	Note	2008 £'000	2008 £'000	2007 £'000	2007 £'000
NON-CURRENT ASSETS					
Property, plant and equipment	10b	**24**		63	
Investment in subsidiary undertakings	11	**4,250**		4,250	
			4,274		4,313
CURRENT ASSETS					
Inventories	12	**—**		143	
Trade and other receivables	13b	**577**		720	
Amounts owed by subsidiary undertakings	29	**15,521**		12,496	
Cash and cash equivalents		**4,929**		7,538	
			21,027		20,897
TOTAL ASSETS			**25,301**		25,210
CURRENT LIABILITIES					
Trade and other payables	14b	**1,031**		661	
Amounts due to third party in respect of purchase of subsidiary		**—**		228	
Amounts due to subsidiary undertakings	29	**434**		238	
Short term provisions	18b	**—**		416	
			1,465		1,543
NON-CURRENT LIABILITIES					
TOTAL LIABILITIES			**1,465**		1,543
NET ASSETS			**23,836**		23,667

Company balance sheet continued

AS AT 31 DECEMBER 2008

	Note	2008 £'000	2007 £'000
EQUITY			
Share capital	19	**3,078**	3,012
Share premium account		**37,895**	37,479
Share options reserve	20	**300**	663
Retained losses		**(17,437)**	(17,487)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**23,836**	23,667

The financial statements were approved by the Board on 25 March 2009.

Signed on behalf of the Board of Directors

Paul R Mines (Chief Executive)

Susan J Bygrave (Group Finance Director)

25 March 2009

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

Consolidated statement of changes in equity

AS AT 31 DECEMBER 2008

	Share capital	Share premium account	Share options reserve	Translation reserves	Retained losses	Total equity attributable to equity holders of the parent	Minority interest	TOTAL EQUITY
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1 January 2007	2,978	37,932	1,016	293	(20,473)	21,746	3,072	24,818
Exchange differences arising on translation of overseas operation	—	—	—	(191)	—	(191)	835	644
Net income recognised directly in equity	—	—	—	(191)	—	(191)	835	644
Loss for the year	—	—	—	—	(4,583)	(4,583)	(466)	(5,049)
Total recognised income and expense for the year	—	—	—	(191)	(4,583)	(4,774)	369	(4,405)
New share capital subscribed	34	267	—	—	—	301	—	301
Capital contribution to subsidiary from minority shareholder	—	—	—	—	—	—	729	729
Share options charges in year	—	—	(133)	—	—	(133)	—	(133)
Balance at 31 December 2007	3,012	38,199	883	102	(25,056)	17,140	4,170	21,310
Balance at 1 January 2008	3,012	38,199	883	102	(25,056)	17,140	4,170	21,310
Exchange differences arising on translation of overseas operation	—	—	—	1,343	—	1,343	399	1,742
Net income recognised directly in equity	—	—	—	1,343	—	1,343	399	1,742
Loss for the year	—	—	—	—	139	139	(437)	(298)
Total recognised income and expense for the year	—	—	—	1,343	139	1,482	(38)	1,444
New share capital subscribed	66	424	—	—	—	490	—	490
Share option charges in year	—	—	(389)	—	—	(389)	—	(389)
Balance at 31 December 2008	**3,078**	**38,623**	**494**	**1,445**	**(24,917)**	**18,723**	**4,132**	**22,855**

Company statement of changes in equity

AS AT 31 DECEMBER 2008

	Share Capital £'000	Share Premium £'000	Share Option reserve £'000	Retained losses £'000	Total Equity £'000
Balance at 1 January 2007	2,978	37,204	876	(7,258)	33,800
Loss for the year	—	—	—	(10,229)	(10,229)
Total recognised income and expense for the year	—	—	—	(10,229)	(10,229)
Shares issued in respect of purchase of subsidiary	34	275	—	—	309
Share option charges in year	—	—	(213)	—	(213)
Balance at 31 December 2007	3,012	37,479	663	(17,487)	23,667
Balance at 1 January 2008	3,012	37,479	663	(17,487)	23,667
Profit for the year	—	—	—	50	50
Total recognised income and expense for the year	—	—	—	50	50
New share capital subscribed	66	416	—	—	482
Share option charges in year	—	—	(363)	—	(363)
Balance at 31 December 2008	**3,078**	**37,895**	**300**	**(17,437)**	**23,836**

Consolidated cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 2008

	2008	2007
	£'000	£'000
Loss after tax	(298)	(5,049)
Adjustment for:-		
Taxation	(169)	31
Foreign exchange gain	(2,205)	(469)
Finance charges	242	458
Investment revenue	(371)	(614)
Loss from operations and exceptional items	(2,801)	(5,643)
Adjustment for:-		
Amortisation and impairment of intangible assets	148	2,424
Depreciation of property, plant and equipment	681	440
Share based payments	(389)	(133)
Loss/(profit) on disposal of property, plant and equipment	2	(204)
Decrease in provisions	(441)	(416)
Foreign exchange	81	469
Operating cash flows before movement in working capital	(2,719)	(3,063)
Decrease/(increase) in inventories	4,956	(4,665)
Decrease in receivables	12	1,279
(Decrease)/increase in payables	(3,612)	1,419
Cash utilised by operations	(1,363)	(5,030)
Tax received	169	403
Interest paid	(160)	(458)
Net cash outflow from operating activities	**(1,354)**	(5,085)
Investing activities		
Interest received	371	614
Proceeds on disposal of property, plant and equipment	2	673
Investment in intangible assets	(416)	(71)
Purchase of property, plant and equipment	(307)	(1,029)
Settlement of deferred consideration	(487)	(1,909)
Net cash used in investing activities	**(837)**	(1,722)
Financing activities		
Repayment of loan capital	—	(5)
Repayment of obligations under finance lease	(219)	(157)
Proceeds of issue of ordinary share capital	482	301
Minority interest investment from joint venture partner	—	729
Proceeds from leaseback	—	1,300
Net cash from financing activities	**263**	2,168
Net decrease in cash and cash equivalents	**(1,928)**	(4,639)
Cash and cash equivalents at beginning of year	**8,059**	12,916
Effect of foreign exchange rate changes	250	(218)
Cash and cash equivalents at end of year	**6,381**	8,059

Company cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 2008

	2008	2007
	£'000	£'000
Profit/(loss) after tax	50	(10,229)
Adjustment for:-		
Taxation	(11)	0
Foreign Exchange Gain	(1,889)	(472)
Finance charges	260	2
Investment revenue	(407)	(632)
Loss from operations and exceptional items	(1,997)	(11,331)
Adjustment for:-		
Impairment of investments	0	1,590
Depreciation of property, plant and equipment	3	20
Share based payments	(363)	(213)
Profit on disposal of property, plant and equipment	0	(138)
(Decrease)/increase in provisions	0	(330)
Foreign Exchange	61	—
Operating cash flows before movement in working capital	(2,296)	(10,402)
Decrease/(increase) in inventories	143	(143)
Increase in receivables	(547)	(4,299)
(Decrease)/Increase in payables	(114)	11,456
Cash utilised by operations	(2,814)	(3,388)
Tax received	11	—
Interest paid	(1)	(2)
Net cash outflow from operating activities	(2,804)	(3,390)
Investing activities		
Interest received	347	632
Proceeds on disposal of property, plant and equipment	—	227
Purchase of property, plant and equipment	(147)	(65)
Investment in subsidiary	—	(728)
Settlement of deferred consideration	(487)	(1,909)
Net cash used in investing activities	(287)	(1,843)
Financing activities		
Proceeds of issue of ordinary share capital	482	301
Net cash from financing activities	482	301
Decrease in cash and cash equivalents	(2,609)	(4,932)
Cash and cash equivalents at beginning of period	7,538	12,470
Cash and cash equivalents at end of period	4,929	7,538

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

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2008

1a. **SEGMENTAL INFORMATION BY BUSINESS ACTIVITY FOR THE YEAR ENDED 31 DECEMBER 2008**

	BioPlastics 2008 £'000	RF Applications 2008 £'000	Central Costs 2008 £'000	Total 2008 £'000
Revenue				
External sales	**13,728**	**1,075**	**—**	**14,803**
Depreciation/Amortisation	(708)	(118)	(3)	(829)
Share based payments	42	(24)	371	389
LOSS FROM OPERATIONS	**(844)**	**(15)**	**(1,942)**	**(2,801)**
Interest Received				371
Finance Charges				(242)
Foreign Exchange Gain				2,205
LOSS BEFORE TAXATION				**(467)**
Taxation				169
LOSS FOR THE YEAR				**(298)**
CAPITAL EXPENDITURE				
Property, Plant and Equipment	302	—	5	**307**
Intangible Assets	190	226	—	**416**
ASSETS	27,087	1,075	5,245	**33,407**
LIABILITIES	(1,857)	(118)	(8,577)	**(10,552)**

1b. **SEGMENTAL INFORMATION BY GEOGRAPHICAL REGION FOR THE YEAR ENDED 31 DECEMBER 2008**

	Revenue 2008 £'000	Segment Assets 2008 £'000	Tangible Assets Capital Expenditure 2008 £'000	Intangible Assets Capital Expenditure 2008 £'000
Europe	13,020	25,194	160	17
UK	693	8,213	147	399
Other	1,090	—	—	—
	14,803	**33,407**	**307**	**416**

1c. SEGMENTAL INFORMATION BY BUSINESS ACTIVITY FOR THE YEAR ENDED 31 DECEMBER 2007

	BioPlastics 2007 £'000	RF Applications 2007 £'000	Central Costs 2007 £'000	Total 2007 £'000
Revenue				
External sales	**7,005**	**1,059**	**—**	**8,064**
Exceptional items	(438)	(500)	(1,589)	(2,527)
Depreciation/Amortisation	(409)	(145)	—	(554)
Share based payments	(22)	(58)	213	133
LOSS FROM OPERATIONS	**(1,132)**	**(835)**	**(3,676)**	**(5,643)**
Interest Received				614
Finance Charges				(458)
Foreign Exchange Gain				469
LOSS BEFORE TAXATION				(5,018)
Taxation				(31)
LOSS FOR THE YEAR				**(5,049)**
CAPITAL EXPENDITURE				
Property, Plant and Equipment	972	20	37	**1,029**
Intangible Assets	71	—	—	**71**
ASSETS	23,578	1,315	8,868	**33,761**
LIABILITIES	(10,708)	(991)	(752)	**(12,451)**

1d. SEGMENTAL INFORMATION BY GEOGRAPHICAL REGION FOR THE YEAR ENDED 31 DECEMBER 2007

	Revenue 2007 £'000	Segment Assets 2007 £'000	Tangible Assets Capital Expenditure 2007 £'000	Intangible Assets Capital Expenditure 2007 £'000
Europe	6,428	23,506	972	71
UK	413	10,255	57	—
Other	1,223	—	—	—
	8,064	**33,761**	**1,029**	**71**

2. REVENUE

	2008 £'000	2007 £'000
Sales of goods	**14,286**	7,800
Sales of services	**69**	114
Royalty income	**448**	150
	14,803	8,064

3. COST OF SALES

2007 cost of sales have been adjusted to include £796,000 of production costs which were previously classed as recurring administrative expenses.

4a. RECURRING ADMINISTRATIVE EXPENSES

	2008 £'000	2007 £'000
Recurring administrative expenses include:		
Depreciation, amortisation and impairment:		
Other intangible fixed assets, owned	**148**	114
Property, plant and equipment, owned	**366**	372
Property, plant and equipment, leased	**315**	92
Loss/(profit) on disposal of property, plant and equipment	**2**	(204)
Auditors' remuneration	**60**	54
Hire of plant and machinery	**3**	12
Operating lease rentals: Land and buildings	**282**	241
Operating lease income: Land and buildings	**(135)**	(96)
Share based payments	**(389)**	(133)
Bad debt provision	**53**	—

4b. AUDITORS' REMUNERATION

	2008	2007
	Grant Thornton UK LLP	Grant Thornton UK LLP
	£'000	£'000
Audit of the parent company	**22**	20
Audit of subsidiaries of company pursuant to legislation	**15**	15
Other services pursuant to legislation	**15**	—
Taxation services	**8**	8
Total	**60**	43

During 2007 other services pursuant to legislation of £11,000 were carried out by auditors other than Grant Thornton UK LLP.

5. EXCEPTIONAL ITEMS

	2008	2007
	£'000	£'000
The loss from operations after exceptional items and before taxation is stated after charging:		
Terminated operations	—	217
Impairment of intangible assets	—	2,310
	—	2,527

6. FINANCE CHARGES

	2008	2007
	£'000	£'000
Finance leases	**108**	100
Other interest	**52**	64
Interest on promissory notes	**61**	56
Finance charge on deferred consideration	**21**	238
	242	458

7. **DIRECTORS AND EMPLOYEES**

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

	Group		Company	
	2008	2007	**2008**	2007
	Number	Number	**Number**	Number
Management	**12**	11	**4**	4
Administration	**11**	12	**2**	3
Sales	**5**	7	**—**	—
Manufacturing and engineering	**20**	24	**—**	—
	48	54	**6**	7
	£'000	£'000	**£'000**	£'000
Staff costs:				
Wages and salaries	**2,151**	2,207	**550**	560
Social security costs	**319**	326	**66**	68
Pension costs – personal pension contribution	**69**	76	**26**	24
	2,539	2,609	**642**	652
Directors' remuneration				
Emoluments	**528**	413	**528**	413
Pension costs – personal pension contributions	**28**	18	**28**	18
	556	431	**556**	431

The Group has identified key management personnel as the executive Directors.

A detailed breakdown of directors' emoluments is contained in the directors' Remuneration Report.

Share options charges related to executive directors included within administrative expenses relating to key personnel is a negative charge of (£91,000) (2007: charge of £17,000). The negative charge includes a writeback of £144,000 related to the lapse of share option agreements for a departing director.

8a. TAXATION

Analysis of charge in year

	Group	
	2008	2007
	£'000	£'000
Current income tax		
Current income tax credit	**(4)**	(5)
Adjustments in respect of prior periods:	**(165)**	36
Total current income tax (note 8b)	**(169)**	31
UK Corporation tax	**(165)**	36
Overseas Corporation tax	**(4)**	(5)
Total Consolidated Corporation tax (credit)/charge	**(169)**	31

8b. TAXATION

Factors affecting tax charge for year

	Group	
	2008	2007
	£'000	£'000
Loss on ordinary activities before taxation	**(467)**	(5,018)
Tax thereon at UK statutory income tax rate 28.5% (2007: 30%)	**(133)**	(1,505)
Expenses not deductible for tax purposes	**18**	2,890
Additional deduction for research and development expenditure	**(9)**	—
Income not taxable for tax purposes	**(71)**	(218)
Unrelieved tax losses and other deductions	**221**	(1,913)
Utilisation of tax losses	—	815
Capital Allowance in the period in excess of depreciation	**(8)**	(69)
Adjustment in respect of prior periods	**(183)**	36
Total UK Corporation Tax	**(165)**	36
Overseas corporation tax	**(4)**	(5)
Tax (credit)/charge for the year	**(169)**	31

The Group has estimated trading losses of £19,589,548 (2007: £19,109,013) available for carry forward against future trading profits. The Company has estimated trading losses of £6,770,194 (2007: £6,631,239) available for carry forward against future trading profits. The Group had capital losses of £1,513,277 (2007: £1,513,277).

9. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill relating to Aquasol	Goodwill relating to Biotec GmbH	Other intangible assets	Total
	£'000	£'000	£'000	£'000
Group				
Cost:				
At 1 January 2007	1,991	11,219	7,852	21,062
Exchange differences	—	1,105	—	1,105
Additions	—	—	71	71
At 1 January 2008	1,991	12,324	7,024	21,339
Exchange differences	—	4,021	17	4,038
Additions	—	—	416	416
At 31 December 2008	**1,991**	**16,345**	**7,457**	**25,793**
Accumulated amortisation and impairment:				
At 1 January 2007	—	—	6,873	6,873
Provided in the year - charge for the year	—	—	114	114
- impairment for the year	1,590	—	720	2,310
- disposal	—	—	(899)	(899)
At 1 January 2008	1,590	—	6,808	8,398
Provided in the year - charge for the year	—	—	148	148
At 31 December 2008	**1,590**	**—**	**6,956**	**8,546**
Net book value:				
At 31 December 2008	**401**	**16,345**	**501**	**17,247**
At 31 December 2007	**401**	**12,324**	**216**	**12,941**

9. **GOODWILL AND OTHER INTANGIBLE ASSETS** continued

Goodwill has been allocated to the specific Cash Generating Units (CGU) to which it relates. It is then added to the related net assets of that CGU. The total is compared to the recoverable amount of the CGU, which is calculated on the basis of value in use. Value in use is calculated using a Discounted Cash Flow forecast (DCF) model.

The discount rate used in the DCF model is 12.25% (2007: 11%). This represents Stanelco's cost of equity and in the absence of debt is the Weighted Average Cost of Capital for the Group. The discount rate has been increased from 11% to reflect the increased risk within the financial markets. The cash flows are projected over a period of 5 years with a terminal value calculated as a multiple of the fifth year's free cash flow. A multiple of 8 has been used in the DCF models for both Aquasol and Biotec. The cash flows, discount rate and multiplier are considered appropriate by the directors having regard to Stanelco recent and projected performance and input from external advisors of the group. The Aquasol DCF model includes patent royalties with no expenses. The Biotec DCF model is based upon a detailed forecast of revenue and expenses. Biotec's forecast sales growth would have to decrease by 16.7% or the gross margin achievable would have to decrease by 4.9% before an impairment would be required.

Including related net assets the relevant asset value of Aquasol is £421,000 and Biotec £21,158,000. The value in use calculated using DCF exceeds the relevant asset value for both Aquasol and Biotec. The sensitivity of the assumptions has also been checked to ensure that the environment would have to be substantially changed before impairment is required. In the case of Aquasol the multiplier would have to reduce by 5.5 or the discount rate increased to 52% before impairment is required. Biotec's multiplier would have to reduce by 1.8 or the discount rate increased to 16.8% to require impairment. The value in use exceeds the relevant asset value for Aquasol by £512,000 and for Biotec by £3,860,000.

Other Intangible Assets comprise £419,000 of capitalised development costs and £82,000 of software licenses. The remaining amortisation period on the £501,000 of other intangible assets at 31 December 2008 is a weighted average of 4.7 years.

10a. **PROPERTY, PLANT AND EQUIPMENT** Group

	Land, buildings and leasehold improvements	Plant and equipment	Fixtures and fittings	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost:					
At 1 January 2007	1,709	3,419	286	133	5,547
Exchange differences	86	147	—	—	233
Additions	341	668	—	20	1,029
Disposals	—	(1,325)	(21)	(133)	(1,479)
At 1 January 2008	2,136	2,909	265	20	5,330
Exchange differences	609	1,163	—	—	1,772
Additions	79	228	—	—	307
Disposals	—	—	(32)	(20)	(52)
At 31 December 2008	2,824	4,300	233	—	7,357
Depreciation:					
At 1 January 2007	94	1,217	163	55	1,529
Exchange differences	—	6	—	—	6
Provided in the year	27	352	36	25	440
Disposals	—	(922)	(16)	(71)	(1,009)
At 1 January 2008	121	653	183	9	966
Exchange differences	76	548	—	—	624
Provided in the year	91	567	21	2	681
Disposals	—	—	(23)	(11)	(34)
At 31 December 2008	288	1,768	181	—	2,237
Net book value:					
31 December 2008	**2,536**	**2,532**	**52**	**—**	**5,120**
Net book value:					
31 December 2007	2,015	2,256	82	11	4,364

10a. PROPERTY, PLANT AND EQUIPMENT Group continued

Included above are assets held under finance leases or hire purchase contracts as follows:

	Property, plant and equipment £'000
Net book values:	
At 31 December 2007	1,209
At 31 December 2008*	1,202
Depreciation charge for the year:	
31 December 2007	92
31 December 2008	315

*Includes foreign exchange translation gain of £332,000 in 2008. These assets were commissioned during late 2007 resulting in £nil translation gains or losses.

10b. PROPERTY, PLANT AND EQUIPMENT Company

	Land, buildings and leasehold improvements £'000	Plant and equipment £'000	Fixtures fittings and equipment £'000	Motor vehicles £'000	Total £'000
Cost:					
At 1 January 2007	—	465	18	84	567
Additions	24	66	—	—	90
Disposals		(465)	(16)	(84)	(565)
At 1 January 2008	24	66	2	—	92
Additions	1	146			147
Disposals	—	—	(2)	—	(2)
Transfers*	—	(207)	—	—	(207)
At 31 December 2008	25	5	—	—	30
Depreciation:					
At 1 January 2007	—	421	14	25	460
Charge for year	2	25	2	16	45
Disposals	—	(421)	(14)	(41)	(476)
At 1 January 2008	2	25	2	—	29
Charge for year	4	15	—	—	19
Disposals	—	—	(2)	—	(2)
Transfers*	—	(40)	—	—	(40)
At 31 December 2008	6	—	—	—	6
Net book value:					
At 31 December 2008	**19**	**5**	**—**	**—**	**24**
At 31 December 2007	22	41	—	—	63

*Assets were transferred to Adept Polymers Ltd a wholly owned subsidiary of Stanelco plc. Depreciation charges for the assets not transferred amounted to £3,000.

11. **INVESTMENTS**

	Total
	£'000
Investment in subsidiary undertakings Company	
Cost:	
1 January 2007	5,645
Additions	728
1 January 2008 and 31 December 2008	6,373
Diminuation in value and provision for diminuation in value:	
1 January 2007	533
Dimunition in value in year	1,590
1 January 2008 and 31 December 2008	2,123
Net book value at 31 December 2008	**4,250**
Net book value at 31 December 2007	4,250

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. The investments relate to Aquasol and Biotec GmbH. Details of the impairment testing performed on goodwill relating to these CGU's can be found in Note 9.

11. **INVESTMENTS** continued

Holding 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 of shares held
Stanelco RF Technologies Limited	England and Wales	2 Ordinary £1 shares	100
InGel Technologies Limited	England and Wales	9,500 Ordinary "A" 1p shares	93.7
Adept Polymers Limited	England and Wales	2 Ordinary £1 shares	100
Aquasol Limited	England and Wales	29,000 Ordinary £1 shares	100
Stanelco Inc	USA	100 Ordinary shares $0.01	100
Biotec Holding GmbH	Germany	1 Ordinary Share of €25,000	50
bio-tec Biologische Naturverpackungen GmbH & Co. KG	Germany	1 Ordinary Share of €51,200 (Held by Bio-tec Holding GmbH)	50
bio-tec Biologische Naturverpackungen Forschungs-und Entwicklungs GmbH	Germany	1 Ordinary Share of €26,000 (Held by Bio-tec Holding GmbH)	50

Stanelco RF Technologies Limited is involved in the development, manufacture and supply of Radio Frequency applications equipment. InGel Technologies Limited is a development company. Adept Polymers Limited is a company that specialises in the formulation and manufacture and sale of Bioplastics. Aquasol Limited specialises in designing packaging solutions and has specific expertise in water soluble packaging. Stanelco Inc has been set up to promote the Group's activities and products in the USA. Biotec Holding GmbH Group was acquired in September 2005 and 50 per cent was disposed of to SPhere (formerly SP Metal) of France. Biotec is one of the world's leading exponents of starch technology and specialise in formulations for packaging, pharmaceutical and edible applications.

All companies are wholly owned by Stanelco PLC except for:

InGel Technologies Limited in which a 6.3 per cent shareholding is held by Cardinal Health 409 Incorporated (formerly R.P. Scherer Corporation). Biotec Holding GmbH in which a 50 per cent shareholding is held by SPhere. Stanelco currently retains a casting vote on material decisions relating to Biotec's business activities. The casting vote expires on 31 December 2009 and the Group will then account for Biotec on a proportional basis.

12. **INVENTORIES**

	Group		Company	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Raw materials and consumables	**834**	4,582	**—**	—
Work in progress	**103**	180	**—**	—
Finished goods and goods for resale	**1,565**	1,757	**—**	143
Total	**2,502**	6,519	**—**	143

12. INVENTORIES continued

Cost of sales in the income statement relates to the cost of goods sold and includes direct production labour costs for goods produced at Biotec GmbH but not goods produced at Stanelco RF Technologies Ltd.

At 31 December 2007 RF stock with a purchase cost of £1,758,000 had been impaired down to a value of £499,000; during 2008 this stock has been impaired by a further £145,000. At 31 December 2007 Bioplastics stock with a purchase value of £35,000 was impaired down to a value of £12,000; during 2008 this stock was further impaired to a £nil valuation.

13a. TRADE AND OTHER RECEIVABLES Group

	2008 £'000	2007 £'000
Trade receivables	**1,419**	1,044
Other receivables	**257**	391
Prepayments and accrued income	**481**	443
Total	**2,157**	1,878

An allowance has been made for estimated irrecoverable amounts from the sale of goods of £61,000 including £8,000 of the 2007 allowance. This allowance has been determined by reference to past default experience. The directors consider that the carrying amount of trade and other receivables approximates their fair value.

The average credit period taken on the sale of goods is 35 days. Before accepting any new customer, the Group uses external credit scoring systems to assess the potential customer's credit quality and define credit limits per customer. Of the trade receivables balance, all debts comprising 5 per cent or more of the trade receivables balance had been collected at the reporting date.

Ageing of past due but not impaired receivables is as follows

	2008 £'000	2007 £'000
60 - 90 days	**48**	3
90 - 120	**—**	15
120 +	**34**	52
Total	**82**	70

13a. TRADE AND OTHER RECEIVABLES Group continued

Movement in allowance for doubtful debts:

	2008 £'000	2007 £'000
Balance at the beginning of the period	**57**	70
Impairment losses recognised	**53**	—
Amounts written off as uncollectible	**(49)**	(13)
Total	**61**	57

In determining the recoverability of a trade receivable the directors consider any changes in the credit quality of the trade receivable from the date credit was initially granted to the reporting date. The concentration of credit risk is limited to the customer base being large and unrelated. Accordingly, the directors believe that there is no further provision required in excess of the allowance for doubtful debts.

Ageing of impaired receivables is as follows:

	2008 £'000	2007 £'000
120 + days	**61**	57
Total	**61**	57

13b. TRADE AND OTHER RECEIVABLES Company

	2008 £'000	2007 £'000
Trade receivables	**72**	201
Other receivables	**172**	195
Prepayments and accrued income	**333**	324
Total	**577**	720

Details of the intragroup receivables can be found in note 29.

13b. **TRADE AND OTHER RECEIVABLES** Company continued

Ageing of past due but not impaired receivables is as follows:

	2008	2007
	£'000	£'000
90 - 120	—	14
120 +	—	39
Total	—	53

Movement in allowance for doubtful debts:

	2008	2007
	£'000	£'000
Balance at the beginning of the period	6	—
Provided in the year	—	6
Provision transferred to subsidiary	(6)	—
Total	—	6

In determining the recoverability of a trade receivable the directors considers any changes in the credit quality of the trade receivable from the date credit was initially granted to the reporting date. The concentration of credit risk is limited to the customer base being large and unrelated. Accordingly, the directors believe that there is no further provision required in excess of the allowance for doubtful debts.

Ageing of impaired receivables is as follows:-

	2008	2007
	£'000	£'000
120+	—	6
Total	—	6

14a. TRADE AND OTHER PAYABLES Group

	2008 £'000	2007 £'000
Trade payables	**690**	4,041
Other taxation and social security costs	**31**	39
Other creditors	**242**	170
Accruals and deferred income	**853**	515
Total	**1,816**	4,765

14b. TRADE AND OTHER PAYABLES Company

	2008 £'000	2007 £'000
Trade payables	**285**	301
Other taxation and social security costs	**34**	43
Other creditors	**107**	—
Accruals and deferred income	**605**	317
Total	**1,031**	661

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 47 days. For all suppliers, no interest is charged if the trade payable exceeds the credit period.

The carrying amount of all trade and other payables is a reasonable approximation of fair value.

Details of the intragroup payables can be found in note 29.

15. FINANCIAL INSTRUMENTS

The Group manages its capital to ensure the entities in the Group are able to continue as going concerns whilst maximising the return to stakeholders through appropriate optimisation of the debt to equity balance. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent. Equity comprises issued share capital, reserves and retained losses as disclosed in the consolidated statement of changes in equity.

Categories of financial instruments

	Group		Company	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Financial assets				
Loans and receivables	**8,057**	9,494	**20,694**	20,430
Financial liabilities recorded at amortised cost				
Trade and other payables	**932**	4,677	**826**	767
Borrowings (Prommisory notes)	**7,543**	5,728	**—**	—

The Group's treasury function provides services to the business, co-ordinates access to domestic and international financial markets and monitors and manages financial risk relating to the operations of the Group.

Net foreign currency monetary assets

	Group		Company	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Euros	**1,616**	158	**285**	1
US Dollars	**65**	28	**65**	28

All of the Group and Companies financial instruments are considered to be held at an approximation to fair value.

15. **FINANCIAL INSTRUMENTS** continued

Maturity of financial liabilities

Contractual undiscounted cash flows in respect of financial liabilities are as follows:

Group

2008	0-60 days £'000	61 days - 6 months £'000	7 months - 1 year £'000	13 months - 2 years £'000	2-5 years £'000	Total £'000
Trade and other payables	932	—	—	—	—	**932**
Borrowings (promissory notes)	7,543	—	—	—	—	**7,543**
Finance leases	66	132	199	397	617	**1,411**
Total	**8,541**	**132**	**199**	**397**	**617**	**9,886**

2007	0-60 days £'000	61 days - 6 months £'000	7 months - 1 year £'000	13 months - 2 years £'000	2-5 years £'000	Total £'000
Trade and other payables	4,211	487	—	—	—	**4,698**
Borrowings (promissory notes)	5,672	—	—	—	—	**5,672**
Finance leases	54	108	163	325	831	**1,481**
Total	**9,937**	**595**	**163**	**325**	**831**	**11,851**

Company

2008	0-60 days £'000	61 days - 6 months £'000	7 months - 1 year £'000	13 months - 2 years £'000	2-5 years £'000	Total £'000
Trade and other payables	826	—	—	—	—	**826**
Total	**826**	—	—	—	—	**826**

2007	0-60 days £'000	61 days - 6 months £'000	7 months - 1 year £'000	13 months - 2 years £'000	2-5 years £'000	Total £'000
Trade and other payables	539	487	—	—	—	**1,026**
Total	**539**	**487**	—	—	—	**1,026**

16. **PROMISSORY NOTES**

Group

Promissory notes are amounts due from companies in the Biotec Holding GmbH Group to the 50 per cent shareholder, SPhere. Amounts due represent the principal loans plus unpaid interest. Interest is calculated at one per cent per annum on the outstanding loans.

The promissory notes are repayable on demand. On this basis the notes are included on the balance sheet at the face value which is equivalent to fair value.

The promissory notes are not subject to interest rate risk as interest is fixed at 1% and are repayable on demand.

The promissory notes are denominated in Euro's and appreciate and depreciate with fluctuations between the Euro and Sterling accordingly.

17. **OBLIGATIONS UNDER FINANCE LEASES** Group

Obligations under finance leases

	2008 £'000	2007 £'000
Within one year	397	325
In the second to fifth years	1,014	1,156
Minimum lease payments	1,411	1,481
Interest to be charged	(218)	(374)
Present value of minimum lease payments	**1,193**	**1,107**
Current liabilities	294	169
Non-current liabilities	899	938
Total	**1,193**	**1,107**

The average lease terms is five years. For the year ended 31 December 2008 the effective borrowing rate was 12.25 per cent (2007: 11 per cent).

There are no finance leases in the parent company.

18a. PROVISIONS FOR LIABILITIES Group

	Total provisions £'000
At 1 January 2007	857
Utilised in the year	(586)
Provided in year	170
At 31 December 2007	441
At 1 January 2008	441
Utilised in the year	(441)
Provided in year	—
At 31 December 2008	—

18b. PROVISIONS FOR LIABILITIES Company

At 1 January 2007	500
Utilised in year	(254)
Provided in year	170
At 31 December 2007	416
At 1 January 2008	416
Utilised in year	(416)
Provided in year	—
At 31 December 2008	—

At 31 December 2007 provisions material in nature to both Group and Company were £170,000 of provision against costs associated with vacant premises and £112,000 against costs associated with legal claims and disputes.

19. SHARE CAPITAL

	2008 £'000	2007 £'000
Group and Company		
Authorised: Ordinary shares of 0.1p each		
4,000,000,000 (2007: 4,000,000,000)	**4,000**	4,000
Allotted, issued and fully paid: Ordinary shares of 0.1p each		
At 1 January: 3,011,852,513 (2006: 2,977,646,824)	**3,012**	2,978
Issued in the year: 66,488,404 (2007: 34,205,689)	**66**	34
At 31 December: 3,078,340,917 (2007: 3,011,852,513)	**3,078**	3,012

All ordinary shares carry equal participation in assets, rights to dividends and voting power.

19. **SHARE CAPITAL** continued

Transaction costs deducted directly from equity in 2008 were £4,000 (2007: £4,000).

20. **SHARE OPTIONS RESERVE**

	Group		Company	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Group and Company				
Opening balance	**883**	1,016	**663**	876
Income and expenditure charge for the year in respect of the fair value of share based payments under share option awards	**(389)**	(133)	**(363)**	(133)
Transfer to subsidiaries	**—**	—	**—**	(80)
Closing balance	**494**	883	**300**	663

Under International Financial Reporting Standard No. 2: Share Based Payments (IFRS 2) the fair value of share based payments are expensed in the income statement throughout their vesting period. In accordance with IFRS 2, the fair value calculations have only been applied in respect of share based payment transactions granted after 7 November 2002 that had not vested by 1 November 2005.

Share option award schemes

The Group operates various equity-settled share option schemes (the "Schemes") for certain employees.
The awards outstanding can be summarised as follows:

	2008 Number of ordinary shares	2007 Number of ordinary shares
Scheme		
Enterprise Management Incentive Schemes (EMI)	**8,797,223**	18,540,583
Stand alone unapproved share options	**26,609,492**	26,609,492
Stanelco plc 2005 Unapproved Share Option Plan and Stanelco plc Employment Benefit Trust (2005 USOP)	**236,132,200**	113,846,154
Total	**271,538,915**	158,996,229

Share schemes

The EMI share option scheme is a HM Revenue and Customs approved scheme. Options are granted by the Board to employees of the company and UK subsidiaries at an exercise price equal to the market price at the date of grant. The options have a three year vesting period and can be exercised from commencement of the third anniversary and expiring ten years from the date of grant. Stand alone unapproved share options are granted to specific employees. Vesting and exercise terms are the same as those of the EMI scheme. The 2005 USOP scheme provides for the grant of options to executives and employees and Trustees of the Stanelco plc Employment Benefit Trust. Options are granted at an exercise price based on the market value on the date of grant. Options have a three year vesting period and can be exercised from the commencement of the third anniversary and expiring ten years from the date of grant. Performance conditions restrict the number of shares excercisable, further details can be found in the Director's remuneration report on pages 20 to 23 of this Report.

20. **SHARE OPTIONS RESERVE** continued

Information for awards granted during the year

The weighted average fair value of share options granted during the year, as estimated at the date of grant, was £144,000 (2007: £103,000). This was calculated using the Black-Scholes share option pricing model.

Weighted average fair value assumptions

The following weighted average assumptions were used in these option pricing models:

	2008	2007
Exercise Price	**0.68p**	0.52p
Expected volatility	**118%**	91%
Expected life	**3.83yrs**	3.83yrs
Expected dividend	**Nil**	Nil
Risk-free interest rate	**4.59%**	5.8%
Market value of shares	**0.68p**	0.72p

Expected volatility was determined by calculating the historical volatility of the company's share price, over a period of 3 years prior to the date of grant.

	Stand alone options	2005 USOP	EMI
Balance outstanding at 1 January 2007	26,609,492	33,292,683	29,426,871
Granted	—	103,846,154	—
Lapsed	—	(23,292,683)	(10,886,288)
Balance outstanding at 31 December 2007	26,609,492	113,846,154	18,540,583
Exercise prices of options outstanding at the period end in the range	2.56p - 10.7p	0.52p - 19p	2.25p - 19p
Weighted average exercise price of options outstanding at the period end	3.645p	1.975p	6.197p
Weighted average contractual life in months of options outstanding at the period end	60	112	68
Exercisable at the period end	26,209,492	—	11,210,027
Weighted average exercise price of options currently exercisable at the period end	3.537p	—	3.067p

20. **SHARE OPTIONS RESERVE** continued

	Stand alone options	2005 USOP	EMI
Balance outstanding at 1 January 2008	26,609,492	113,846,154	18,540,583
Granted	—	132,286,046	—
Lapsed	—	(10,000,000)	(9,743,360)
Balance outstanding at 31 December 2008	26,609,492	236,132,200	8,797,223
Exercise prices of options outstanding at the period end in the range	2.56p - 10.7p	0.43p - 0.8p	3.875p - 19p
Weighted average exercise price of options outstanding at the period end	3.645p	0.608p	8.08p
Weighted average contractual life in months of options outstanding at the period end	48	109	74
Exercisable at the period end	26,209,492	—	8,047,223
Weighted average exercise price of options currently exercisable at the period end	3.537p	—	7.69p

The weighted average exercise prices of options granted, exercised and lapsed during the year in pence were:

Year ended 31 December 2007

pence	Stand alone options	2005 USOP	EMI
Options granted	—	0.52	—
Options exercised	—	—	—
Options lapsed	—	11.684	6.035

Year ended 31 December 2008

pence	Stand alone options	2005 USOP	EMI
Options granted	—	0.68	—
Options exercised	—	—	—
Options lapsed	—	17	7.51

The weighted average share price at the date of exercise of options during the period was:

pence	Stand alone options	2005 USOP	EMI
Year ended 31 December 2007	—	—	—
Year ended 31 December 2008	—	—	—

20. **SHARE OPTIONS RESERVE** continued

Outstanding share options by exercise price ranges	2008		2007	
	Total	**Exercisable**	**Total**	**Exercisable**
Stand alone options				
0.01p to <5p	**26,209,492**	**26,209,492**	26,209,492	26,209,492
5p to <10p	—	—	—	—
10p to <15p	**400,000**	**400,000**	400,000	—
15p to 19p	—	—	—	—
Total	**26,609,492**	**26,609,492**	26,609,492	26,209,492
2005 USOP				
0.01p to <5p	**236,132,200**	—	103,846,154	—
5p to <10p	—	—	—	—
10p to <15p	—	—	—	—
15p to 19p	—	—	10,000,000	—
Total	**236,132,200**	—	113,846,154	—
EMI				
0.01p to <5p	**5,072,223**	**5,072,223**	13,815,583	13,815,583
5p to <10p	**500,000**	**500,000**	500,000	500,000
10p to <15p	**1,500,000**	**750,000**	1,500,000	—
15p to 19p	**1,725,000**	**1,725,000**	2,725,000	—
Total	**8,797,223**	**8,047,223**	18,540,583	14,315,583

21. **PROFIT AND LOSS ACCOUNT** Company

	2008	2007
	£'000	£'000
Opening balance	**(17,487)**	(7,258)
Retained profit/(loss) for the period	**50**	(10,229)
Closing balance	**(17,437)**	(17,487)

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 profit after dividends of the holding company for the year is £50,000 (2007: retained loss £10,229,000).

22. **CAPITAL COMMITMENTS**

The Group had no capital commitments at 31 December 2008 and 31 December 2007.

23a. COMMITMENTS UNDER OPERATING LEASES – LESSEE

At 31 December the Group and Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2008	2007
	£'000	£'000
Land and buildings:		
Within one year	**282**	281
In the second to fifth years inclusive	**1,126**	1,126
After five years	**2,019**	2,301
Other operating leases:		
Within one year	**17**	34
In the second to fifth years inclusive	**24**	4
Total	**3,468**	3,746

None of the leases have any discounted periods or breakpoints within their remaining term.

23b. COMMITMENTS UNDER OPERATING LEASES – LESSOR

At 31 December the Group and Company had outstanding commitments for future lease receipts under non-cancellable operating leases, receivable as follows:

	2008	2007
	£'000	£'000
Land and buildings:		
Within one year	**217**	121
In the second to fifth years inclusive	**933**	486
After five years	**636**	506
Total	**1,786**	1,113

The leases relate to two industrial units surplus to the requirements of the group. Both leases had an initial discounted period, one of which expires during 2009. One of the leases has a break point during 2010 and 2013. The other has a break point in 2012.

24. PENSION COMMITMENTS

The Group makes contributions to personal pension plans schemes based on contractual terms. The contribution charge for the year was £69,000 (2007: £76,000).

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group and Company's financial instruments arise directly from operations and include cash, trade receivables, trade payables, lease finance and equity. The use of these instruments exposes the Group and Company to risk relating to exchange rate, liquidity, interest rates and credit.

Foreign currency exchange rate risk

Within the Group, Bioplastics sales are predominantly priced in Euro's which is also the currency of the supply. This largely mitigates exchange rate risk. RF Applications sales are predominantly quoted in Sterling. The bespoke nature of most RF Applications sales allow for adverse and beneficial exchange rate movements to be reflected in the quoted price. The Group does not enter into forward foreign currency contracts. The assets and liabilities of the Biotec subsidiary are denominated in Euro's. During 2008 a 31% appreciation of the Euro against Sterling resulted in a Euro foreign exchange gain of £1,891,000 in the income statement of the Group and Company and £1,343,000 gain in the foreign exchange reserve in the Group balance sheet. Future appreciation or depreciation of the Euro against Sterling will result in materially similar foreign exchange gains or losses in the income statement and balance sheet.

Interest rate risk

Currently the Group and Company do not have any Loans or Floating Rate Borrowings. Exposure to interest rate fluctuations is primarily with interest received on its cash asset. An increase or decrease of 1% in market interest rates would have a circa £31,000 effect on interest income during 2009. Trade receivable and payables do not ordinarily attract interest and are therefore subject to fair value interest rate risk. Interest on all Hire Purchase agreements and prommissory notes is fixed and therefore free from interest rate risk.

The interest rate exposure of the financial assets and liabilities of the Group as at 31 December 2008 is shown in the table below. The table includes trade receivables and payables as these do not attract interest and are therefore subject to fair value interest rate risk.

Group

Interest rate	**Fixed**	**Floating**	**Zero**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets				
Cash and cash equivalents	—	6,381	—	6,381
Trade and other receivables	—	—	1,419	1,419
Totals	**—**	**6,381**	**1,419**	**7,800**
Financial liabilities				
Trade and other payables	—	—	932	932
Lease finance	1,193	—	—	1,193
Promissory notes	7,543	—	—	7,543
Totals	**8,736**	**—**	**932**	**9,668**

25. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** Continued

Company

Interest rate	**Fixed**	**Floating**	**Zero**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets				
Cash and cash equivalents	—	4,929	—	4,929
Trade and other receivables	7,616	—	8,149	15,765
Totals	**7,616**	**4,929**	**8,149**	**20,694**
Financial liabilities				
Trade and other payables	—	—	826	826
Totals	**—**	**—**	**826**	**826**

Liquidity risk

The Group and Company has sufficient cash to fund operations for the foreseeable future. Liquidity is managed over the medium terms with appropriate steps taken to ensure adequate cash is available to fund the Group and Company's activities.

Credit risk

The Group and Company's principal financial assets are cash and trade receivables. The credit risk associated with cash is reduced through deposits being split across a number of British Banks. The credit risk arising from the Group and Company's trade receivables is reduced through prescribing credit limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed on a regular basis in conjunction with debt ageing and collection history. Note 13 provides information regarding the effects of credit risk to the Group and Company.

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

There are no contracts within which the directors have an interest.

27. **CONTINGENT LIABILITIES**

Novamont S.p.A ("Novamont") has brought proceedings against Biotec Biologische Naturverpackungen GmbH & Co KG, Germany ("Biotec") claiming infringement of the French and Italian designations of Novamont's European Patent Numbers EP 0 327 505, EP 0 947 559 and EP 0 937 120 (the "Novamont Patents").

Biotec is defending these claims robustly. The proceedings are continuing and a judgement is not expected for between 6 months and 2 years for either the French or the Italian proceedings. Stanelco and Biotec continue to take professional and technical advice with regard to this litigation and are confident of a successful outcome.

28. **CONTROL**

There is no ultimate parent of the Group.

29. **RELATED PARTY TRANSACTIONS**

Details of share holdings in Subsidiary Companies are shown in the note detailing Fixed Asset Investments. Transactions between the Company and its Subsidiaries, which are related parties, have been eliminated on consolidation. The period end balances between the Company and its Subsidiaries are shown below:

	Amounts owed		Amounts	
owed	by related parties		to related parties	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Stanelco RF Technologies Limited	**6,329**	6,637	—	—
InGel Technologies Limited	—	40	—	—
Adept Polymers Limited	**1,576**	62	—	(113)
Aquasol Limited	—	—	**(434)**	(22)
Stanelco Inc	—	26	—	(59)
Biotec Holding GmbH	**7,616**	5,729	—	(44)
Stanelco Products Limited	**N/A**	2	**N/A**	—
Total	**15,521**	12,496	**(434)**	**(238)**

Included in the above are provisions against certain inter-company receivables as follows:

	£'000
Stanelco RF Technologies Limited	7,000
Stanelco Inc	885
Adept Polymers Limited	2,442
Ingel Technologies Ltd	39

Intergroup provisions	2008	2007
	£'000	£'000
Balance at the beginning of the period	10,327	2,442
Impairment losses recognised	39	7,885
Total	**10,366**	**10,327**

These provisions reflect directors assessment of the Subsidiaries short-term ability to repay the debts due to Parent Company. The assessment is based upon the discounted free cash flow of the Subsidiary at a discount rate of 12.25%.

No collateral or guarantees are held for intergroup receivables and all are repayable on demand.

Stanelco Products Ltd, a dormant company was dissolved during 2008.

Intergroup Trading

- Sales to Adept Polymers Limited were £nil during 2008 (2007: £148,000).
- Bioplastics Finished Products purchases from Biotec Holding GmbH during 2008 were £2,099,000 (2007: £289,000).
- Raw materials sold to Biotec Holding GmbH during 2008 were £690,000 (2007: £nil).

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 2009 Annual General Meeting of the members of Stanelco plc (the "**Company**") will be held on Friday 24th April 2009 at 10:30am at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB for the following purposes:

Ordinary business

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

1. To receive and adopt the annual report of the directors of the Company and the audited financial statements for the year ended 31 December 2008.
2. To receive and approve the directors' remuneration report for the year ended 31 December 2008.
3. To re-elect John F Standen as a non-executive director and Chairman of the Company who retires by rotation in accordance with the Company's articles of association.
4. To elect Susan J Bygrave as Group Finance Director of the Company, who having been appointed since the last Annual General Meeting, offers herself for re-election in accordance with the Company's articles of association.
5. To re-appoint Grant Thornton UK LLP, 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 of which resolution 6 will be proposed as an ordinary resolution and resolutions 7, 8, 9 and 10 will be proposed as special resolutions:

6. THAT 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 £921,659 (representing approximately one third of the nominal value of the issued ordinary 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 eighteen 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 such relevant securities pursuant to such an offer or agreement as if the power conferred hereby had not expired.
7. THAT the directors be and they are hereby empowered pursuant to section 95 of the Act (in substitution for any existing authority to allot equity securities) to allot equity securities (as defined in section 94 of the Act) wholly for cash where such allotment is either pursuant to the authority conferred by resolution 6 above, or by virtue of Section 94(3A) of the Act, in either case as if section 89(1) of the Act did not apply to any allotment provided that the power conferred by this resolution shall be limited to:

(a) the allotment of equity securities in connection with or pursuant to an offer by way of rights, open offer or other pre-emptive rights in favour of holders of ordinary shares in the capital of the Company 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 (a) of this resolution) of equity securities up to an aggregate nominal amount of £153,917 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 eighteen 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.

8. THAT the draft regulations contained in the printed document signed by the Chairman for the purpose of identification be and are approved and adopted as the articles of association of the Company in substitution for, and to the exclusion of, the existing articles of association of the Company.

9. 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 (“Ordinary Shares”) 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 eighteen 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 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;

(b) the maximum number of shares hereby authorised to be acquired is 307,834,091 Ordinary Shares (being approximately 10 per cent of the issued Ordinary Share capital of the Company as at 31 December 2008); and

(c) the maximum price which may be paid for each Ordinary Share is an amount equal to 105 per cent of the average middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased and the minimum price which may be paid for an Ordinary Share is 0.1 pence.

10. THAT a general meeting other than an annual general meeting may be called on not less than 14 clear days’ notice.

By Order of the Board
Donna R Simpson
Company Secretary

Registered Office:
Starpol Technology Centre
North Road, Marchwood
Southampton SO40 4BL

30 March 2009

NOTES

1. A member who is entitled to attend, speak and vote may appoint a proxy to attend, speak and vote instead of him. A proxy need not also be a member of the Company but must attend the meeting in order to represent you. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy).

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. To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 by 10.30am on 22 April 2009. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST personal members or other CREST sponsored members, and those CREST members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5) (a) of the Uncertified Securities Regulations 2001. In any case your proxy form must be received by the company's registrars no later than 10.30am on 22 April 2009.

5. If you are a person who has been nominated by a member to enjoy information rights in accordance with section 146 of the Companies Act 2006, Note 1 above does not apply to you but you may have a right under an agreement between you and the member by whom you were nominated to be appointed or to have someone else appointed, as a proxy for the meeting. If you have no such right or do not wish to exercise it, you may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.

6. The following documents are available for inspection at the registered office of the Company during the usual business hours on any weekday (Saturday, Sunday or public holidays excluded) from the date of this notice until the conclusion of the meeting and will also be available for inspection at the place of the meeting from 10.15 a.m. on the day of the meeting until its conclusion:
   (a) copies of the executive directors' service contracts with the Company and any of its subsidiary undertakings and letters of appointment of the non-executive directors; and
   (b) a copy of the proposed new articles of association of the Company, and a copy of the existing articles of association marked to show the changes being proposed in resolution 8.

7. As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, shareholders who hold shares in uncertified form must be entered on the Company's share register at 6.00pm on 22 April 2009 in order to be entitled to attend and vote at the Annual General Meeting. Such shareholders may only cast votes in respect of shares held at such time. Changes to entries on the relevant register after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

8. As at 30 March 2009 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 3,078,340,917 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 30 March 2009 are 3,078,340,917.

9. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (a) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (b) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the chairman is being appointed as described in (a) above.

Explanatory notes

Resolution 1 – Receiving the annual report and financial statements

All listed companies are required by law to lay their annual report and financial statements before a general meeting of the Company, together with the directors' report, directors' remuneration report, and auditors' report on the financial statements and the part of the directors' remuneration report subject to audit.

Resolution 2 – Remuneration Report

All listed companies are required by law to produce for each financial year a directors' remuneration report which sets out the Remuneration Committee's policy in relation to directors' remuneration, together with the remuneration and benefits paid to directors during the year. The Company is also required to put an ordinary resolution to shareholders approving the report at the meeting at which the Company's report and financial statements for that year are laid. Accordingly, resolution 2 seeks the approval of the directors' remuneration report within the report and financial statements 2008.

Resolution 3 – Re-election of director

This resolution concerns the re-election of John F Standen as non-executive director and Chairman of the Company who is retiring at the meeting by rotation in accordance with article 106 of the Company's current articles of association.

A biography of Mr Standen is set out within the director's report of these report and financial statements 2008.

Resolution 4 – Election of director

This resolution concerns the election of Susan J Bygrave as Group Finance Director of the Company.

A biography of Ms Bygrave is set out within the director's report of these report and financial statements 2008. Sue Bygrave was appointed as a director by the board on 5 January 2009 and is required by the Company's articles of association to offer herself for re-election at the Annual General Meeting following her appointment.

Resolution 5 – Re-appointment of auditors

This resolution concerns the re-appointment of Grant Thornton as auditors until the conclusion of the next Annual General Meeting and authorises the directors to fix their remuneration.

Resolution 6 – Directors' power to allot shares

This resolution grants the directors authority to allot shares in the capital of the Company and other relevant securities up to an aggregate nominal value of £921,659 representing approximately one third of the nominal value of the issued ordinary share capital of the Company as shown in the latest audited financial statements of the Company. The directors do not have any present intention of exercising this authority but they consider it desirable that the specified amount of authorised but unissued share capital is available for issue so that they can more readily take advantage of possible opportunities. Unless revoked, varied or extended, this authority will expire at the conclusion of the next Annual General Meeting of the Company.

Resolution 7 – Directors' power to issue shares for cash

This resolution authorises the directors in certain circumstances to allot equity securities for cash other than in accordance with the statutory pre-emption rights (which require a company to offer all allotments for cash first to existing shareholders in proportion to their holdings). The relevant circumstances are either where the allotment takes place in connection with a rights issue or the allotment is limited to a maximum nominal amount of £153,917 representing approximately five per cent of the nominal value of the issued ordinary share capital of the Company. Unless revoked, varied or extended, this authority will expire at the conclusion of the next Annual General Meeting of the Company.

Resolution 8 – Adoption of new articles of association

The present articles of association were last amended on 27th April 2007. Since that date there has been a number of changes in company law and practice. Rather than introducing the necessary changes by making detailed amendments to the existing articles, the directors propose in resolution 8 that a new set of articles be adopted. Most of the changes from the existing articles are of a minor or technical nature. A summary of the principal changes is set out in the Appendix to this Notice and a copy of the proposed new articles of association of the Company, and a copy of the existing articles of association marked to show the changes being proposed in resolution 8 will be available at the Annual General Meeting and made available at the Company's website: www.stanelcoplc.com.

Resolution 9 – Authority to purchase shares (market purchases)

This resolution authorises the board to make market purchases of up to approximately 10 per cent of the Company's issued ordinary shares. Shares so purchased may be cancelled or held as treasury shares.

The directors intend to exercise this right only when, in light of the market conditions prevailing at the time and taking into account all relevant factors (for example, the effect on earnings per share), they believe that such purchases are in the best interests of the Company and shareholders generally. The overall position of the Company will be taken into account before deciding upon this course of action. The decision as to whether any such shares bought back will be cancelled or held in treasury will be made by the directors on the same basis at the time of the purchase.

Resolution 10 – Notice period for general meetings

This resolution is required to reflect the proposed implementation in August 2009 of the Shareholder Rights Directive. The regulation implementing this Directive will increase the notice period for general meetings of the Company to 21 days. Under the new articles of association proposed to be adopted pursuant to Resolution 8, it is intended that the Company takes advantage of the provisions of the Companies Act 2006, whereby it will be able to call general meetings (other than an Annual General Meeting) on 14 clear days' notice and the Company would like to preserve this ability. In order to be able to do so after August 2009, shareholders must have approved the calling of meetings on 14 days' notice. Resolution 10 seeks such approval. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Directive before it can call a general meeting on 14 days' notice.

Appendix

EXPLANATORY NOTES OF PRINCIPAL CHANGES TO THE COMPANY'S ARTICLES OF ASSOCIATION

1. **Articles which duplicate statutory provisions**
   Provisions in the current articles of association (the "Current Articles") which replicate provisions contained in the Companies Act 2006 are in the whole amended (to the extent that this is not already the case) to bring them into line with the Companies Act 2006. Certain examples of such provisions include provisions as to the form of resolutions and provisions regarding the period of notice required to convene general meetings. The main changes made to reflect this approach are detailed below.

2. **Form of resolution**
   The Current Articles enable members to act by written resolution. Under the Companies Act 2006 public companies can no longer pass written resolutions. These provisions have therefore been removed in the new articles of association (the"New Articles").

3. **Convening general meetings and annual general meetings**
   The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are amended to conform to new provisions in the Companies Act 2006. In particular a general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

4. **Votes of members**
   Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. The New Articles reflect this new provision.

5. **Conflicts of interest**
   The Companies Act 2006 sets out directors' general duties which largely codify the existing law but with some changes. Under the Companies Act 2006, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The New Articles give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

   There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

   It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors.

6. **Notice of board meetings**
   Under the Current Articles, when a director is abroad he can request that notice of directors' meetings are sent to him at a specified address and if he does not do so he is not entitled to receive notice while he is away. This provision has been modified, as modern communications mean that there may be no particular obstacle to giving notice to a director who is abroad. There is a more general provision that a director is treated as having waived his entitlement to notice, unless he supplies the Company with the information necessary to ensure that he receives notice of a meeting before it takes place.

7. **Distribution of assets otherwise than in cash**
The Current Articles contain provisions dealing with the distribution of assets in kind in the event of the Company going into liquidation. These provisions have been removed in the New Articles on the grounds that a provision about the powers of liquidators is a matter for insolvency law rather than the articles and that the Insolvency Act 1986 confers powers on the liquidator which would enable it to do what is envisaged by the Current Articles.

8. **Directors' indemnities and loans to fund expenditure**
The Companies Act 2006 has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In particular, a company that is a trustee of an occupational pension scheme can now indemnify a director against liability incurred in connection with the company's activities as trustee of the scheme. In addition, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

9. **General**
Generally the opportunity has been taken to bring clearer language into the New Articles and in some areas to conform the language of the New Articles.

Notes

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BioPlastics
RF Applications

Stanelco Plc · Starpol Technology Centre · North Road · Marchwood · Southampton · SO40 4BL
Tel: +44 (0) 2380 867100 · Fax: +44 (0) 2380 867070 · Skype: Stanelco · Email: info@stanelco.co.uk · Web: www.stanelcoplc.com