STANELCO PLC
Annual Report and Financial Statements
for the year ended 31 October 2004

Officers and advisers

Executive Directors	Ian H Balchin	*Chief Executive*
	Robert P Boardman	*Finance Director (with effect from 1 February 2005)*
	Robert E Duggan	
	Barrie C Hozier	*Finance Director (until 31 January 2005)*
	Terry M Robins	*Chief Operating Officer (with effect from 4 January 2005)*
	Graham J Whitchurch	
	Howard White	*Deputy Chief Executive*
Non-Executive Directors	Elizabeth J Filkin	*Senior Independent Director (with effect from 1 February 2005)*
	Barrie C Hozier	
	Philip A Lovegrove OBE	*Chairman*
Secretary	Robert E Duggan	

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Hampshire SO40 4BL

Company Registration No
1873702 (England and Wales)

Bankers
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Solicitors
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Cloth Hall Court
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Registrars
Capita Registrars
The Registry
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Kent BR3 4TU

Auditors
Jeffreys Henry LLP
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Brokers
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Chairman's statement

During the year under review, the Board has been pleased to see substantial advances towards fulfilling the strategy that was outlined in my previous Chairman's statement, which indicated that significant developments to enter new markets based on our patented RF (Radio Frequency) technology were starting to bear fruit. It is therefore pleasing to be able to inform shareholders that these developments based on the Group's substantial investment in research and development have not only continued, but have gathered pace with the result that a variety of products and processes are nearing commercialisation.

The Board's overall strategy has been to transform the Group from a manufacturer and supplier of capital goods into cyclical markets, into an intellectual property business, exploiting the Group's core technologies. The most advanced applications at present are our RF tray-lidding and thermoforming processes aimed at the global packaging industry.

The accounts for the year show a loss for the Group of £2.8m on turnover of £1.3m, which reflects an operating loss of £1.2m (before exceptionals) resulting from the continuing low levels of orders in the historic businesses and costs associated with developing the Group's strategic transformation. £1.7m of the disclosed loss includes expenditure incurred in the move to new premises and costs incurred actively protecting the Group's intellectual property rights. The Board is currently not in a position to recommend a dividend for the period in question, but intends to consider payments as soon as it is appropriate to do so.

Two corporate transactions of note were agreed in the calendar year of 2004. Aquasol, which specialises in packaging design in water soluble and biodegradable materials, was acquired and the joint venture with Cardinal Health on InGel, has been successfully re-negotiated.

Positive additions to the Board have been made in the period and thereafter which will assist us in executing the Group's new strategy. Terry Robins has been appointed Chief Operating Officer with a specific remit to assist the Group in achieving final commercialisation of its tray-lidding and thermoforming product suite. Terry spent over 30 years working for J. Sainsbury plc, latterly as Packaging Innovations Manager. Robert Boardman has been appointed Finance Director, having been Finance Director at Durlacher Corporation plc and previously at Altium Capital. Barry Hozier will be retiring as Non-Executive Director at the Annual General Meeting on 22 April 2005, and I would like to take this opportunity to thank him for his contribution and wish him well in his retirement.

Since the financial year end, the Board, advised by KBC Peel Hunt, has placed 38,000,000 shares at 12.825p, raising £4.8m before expenses. The proceeds of this placing will be used primarily for working capital relating to existing development projects.

Shareholders will appreciate that huge efforts have been required of the management and staff in what has been a very busy and active time. Our thanks go to them and particularly to Howard White and Ian Balchin for the leadership they have exercised.

The Group is currently concentrating on capitalising on its technological leadership in a variety of products, markets and applications. The Chief Executive's review gives a more detailed analysis of our prospects. The Board is extremely encouraged at the progress made by the Group in the last 18 months and it looks forward to further progress in this financial year.

Philip Lovegrove
Chairman
28 February 2005

Chief Executive's statement

The Stanelco group of companies (the 'Group') has brought together expertise in radio frequency (RF) technology, RF applications and biodegradable material sciences to create a revolutionary range of packaging technologies.

Our philosophy is simple:

New products and processes must offer solutions and applications which:

- give higher added value
- are greener and more environmentally sustainable than those they replace
- have protectable intellectual property rights

Stanelco develops the products and processes to a demonstration stage and then works with partners in order to reach the markets; and under these circumstances Stanelco will usually seek to license its technology. Stanelco invests considerable time and resources in ensuring its technologies are protected via layers of patents wherever possible.

In this way we believe we will minimise commercial risk and preserve the optimum value for shareholders.

Products and processes offering the prospect of near term revenue generation are given priority access to the Group's resources.

TRAY-LIDDING AND THERMOFORMING

During the year Stanelco has applied its RF sealing platform technology to the welding of recyclable plastic 'mono materials' for tray-lidding and thermoforming, specifically in the food packaging area. This process offers substantial financial benefits to food pack houses, supermarkets and an improved end product for consumers.

The process replaces heat-sealing as the method for sealing plastic film lids on to plastic trays for food packaging, especially where modified atmosphere packaging (MAP) is employed. MAP is used to extend the life of the product and so requires high integrity hermetic sealing. The current process of heat sealing has numerous drawbacks. It requires a laminated layer of polyethylene (PE) to act as a sealing layer. It is usually unable to reliably seal through contamination and it is energy inefficient. By using Stanelco's sealing technology it is possible to offer enormous savings to both packagers and supermarkets alike by:

Chief Executive's statement continued

- eliminating the PE layer to reduce the cost of each tray by up to 20 per cent.
- vastly reduced wastage rates, resulting from the ability to seal through contamination
- utilising a mono material so that trays become fully recyclable
- applying RF energy only during the sealing process, providing a further energy saving of up to 70 per cent.

Stanelco's RF sealing process has passed all electromagnetic compatibility tests (EMC) and its state of the art electronics achieve emission rates that are substantially lower than the European Union and United States and US recommended levels. In fact, our units currently emit less RF than the average mobile telephone.

At the time of writing, we are in advanced negotiations with Asda Stores. Stanelco has granted Asda an option until 10 April 2005 to consider entering into an exclusive arrangement for a minimum of one year for the UK and Ireland to introduce Stanelco's RF sealing technology to Asda's supplier base. Clearly, if things progress well with Asda, we would hope to introduce similar arrangements with Asda's US parent, Walmart and its affiliate in Germany.

The Group continues to negotiate with a number of equipment manufacturers, including Reiser, in regard to the roll out of the tray-lidding and thermoforming technology.

Stanelco will license the technology to the end user and will retain ownership of the patented RF generator and control system. End users will pay a yearly licence fee that will include maintenance of the system and ongoing user training and operational technology updates. Patents in regard to key aspects of this technology have also been applied for.

STARPOL™

Starpol™ is a range of materials that utilises a technology that enables starch and polyvinyl alcohol (PVA) to be combined in any proportion to form a homogenous material. Our subsidiary Adept Polymers developed these materials to both lower the cost of water-soluble and biodegradable materials and to produce materials with improved properties over those currently available. We intend to incorporate these materials in several of our new applications such as CradleWrap™. Patents in regard to key aspects of this technology have also been applied for.

FROG PACK™

Frog Pack™ is a patent applied for box designed to replace traditional packaging used for transporting delicate and or valuable items that are vulnerable to damage in transit due to crushing or shock, such as electronics, car parts, glass items, compact discs, flowers, foodstuffs, medicines and medical devices.

Chief Executive's statement continued

Its unique design incorporates the unique SAAP (shock absorbing arcuate panels) technology developed by Aquasol.

The registered design ensures that the optimum energy is absorbed and dissipated through the package and not the product, no matter which face of the pack receives the impact. At the time of writing, Stanelco has appointed its first two distributors.

More details can be found at www.frogpack.com

CRADLEWRAP™

CradleWrap™ is a new range of biodegradable air cushion packaging. The first product, CradleWrap™ Heavy Duty is a wrapping material containing air bubbles designed to absorb high impact. It is currently going through its final stages of testing ready for manufacture on a pilot production line which we have installed. The material has already been demonstrated to hold its air bubbles for longer and to provide impact resistance greater than ten times that of competing products. Given these properties we also expect CradleWrap™ to replace polyurethane foam for some applications.

CradleWrap™ technology is an example of the kind of product that can be rapidly developed through a combination of the skills that now exist within the Group.

SOLUTAPE™

Following the acquisition of Aquasol the Group was able to accelerate development of a 100 per cent. water-soluble adhesive. This now gives rise to a new range of applications such as labels, tapes and films coated with the new adhesive formulation.

Work is progressing with initial applications and we expect this to move to volume production during 2005.

Chief Executive's statement continued

BIODEGRADABLE AIRBAG PACKAGING

We are currently exploiting our low cost Starpol™ biodegradable materials to develop a range of air pillows used as packaging to fill voids. We are working closely with an internationally recognised air pillow manufacturer with a view to partnering with them to commercialise this technology.

FOOD CONTAINERS

We announced during the year that we were working on biodegradable food containers, made predominantly from starch materials. Work on the first product is now reaching an advanced stage and if successful we hope to license it during the year.

TRADITIONAL RF BUSINESS

During the year we supplied what we believe was the world's largest RF furnace for making optical fibre to Japan. The market for this kind of furnace is showing little sign of recovering with customers keen to minimise capital expenditure. We have now outsourced all manufacture of these items but retain control of the intellectual property. We have, however, seen a useful recovery in the demand for consumable items for RF furnaces.

We continue to make sales of mobile RF welding units for sealing industrial plastic bags. These units are three times more energy efficient than the heat-sealing units that they are designed to replace and give a high integrity seal. Applications include the sealing of waste bags for transit.

INGEL TECHNOLOGIES

InGel Technologies Limited (InGel) was established to commercialise Stanelco's edible capsule making technology.

Certain patents relating to this technology have been the subject of litigation between our subsidiary Stanelco RF Technologies Limited and BioProgress Technology Limited. The litigation relates to events which took place in the late 1990's and centres on the entitlement to three families of patents. The Court found that one of the families (making capsules from two water-soluble films using RF) belonged to BioProgress (except for some of the claims in the patent which were awarded jointly to Stanelco and BioProgress) and two of the families were found to belong to Stanelco (manufacture of capsules using rotary RF technology and the making of two compartment capsules using RF). For reasons which Stanelco does not accept, it was found to have breached its duty of confidence to BioProgress. As a consequence of the Court's decision, Stanelco also has a liability to BioProgress in respect of costs and damages, although these have not yet been assessed. However, in light of further evidence that has been identified since the original hearing, and on the basis of legal advice received, Stanelco believes that it will be able to continue to pursue this area of technology. Stanelco will also be seeking leave to appeal the Court's judgement.

Chief Executive's statement continued

Since the year end Stanelco has agreed a modified arrangement with Cardinal Health in relation to its investment in InGel Technologies Limited (InGel). Cardinal Health invested further in InGel shares, in return for a sum of approximately £410,000 and other benefits, and depending upon certain criteria being met within two years, a possible further investment of up to approximately £410,000. As a result of this transaction Cardinal's ownership in InGel has increased in from 5 per cent. to 7.6 per cent., and will increase if the further criteria are met, to 10 per cent.

InGel is important but no longer a key element in the success of the Group and, in mitigation until matters are resolved, we have reduced the resource on this project.

FINANCIAL REVIEW

The Group has invested considerable financial resources in the development and protection of its technologies in line with its strategy. £1.5m has been invested in research and development during the year. £1.7m has been incurred in the restructuring of the Group's business and the defence of patents. Outsourcing of elements of our traditional business has enabled us to move into more suitable and cost effective premises. Together with the drop off in trading in the traditional RF business, this has given rise to a loss for the year of £2.8m. The Group's balance sheet has strengthened with an increase in net assets of £3.4m and a cash inflow of £0.7m for the year.

The Group has been able to fund its acquisitions, restructuring and investment in technology primarily by the issue of shares. Approximately 130 million shares were issued during the year at an average of 3.03 pence per share.

The Board has continued to monitor costs carefully and whilst administrative costs have risen from £1.3m to £1.7m during the year, this increase comes at a time when the number of employees, many of which directly contribute to the Group's development of its technology platform, has grown from 36 to 44.

I am pleased to report that the placing of 38 million shares for £4.8m in cash in February 2005 means that the Group has strengthened its balance sheet further and now has the financial resources to accelerate investment in its technologies as they progress towards commercialisation.

OUTLOOK

In the light of the Board's confidence that the Group's tray-lidding and thermoforming technology will start to fulfil its huge potential, we continue to view the forthcoming year with optimism and look forward to being in a position to make further announcements regarding progress towards our first commercial orders for the technology soon. We are confident that negotiations with Asda Stores will continue to proceed towards agreement and that the first food packages sealed with our tray-lidding technology will reach supermarket shelves imminently.

THANK YOU

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

Ian H Balchin
Chief Executive

28 February 2005

Directors' report

The Directors submit their report and the financial statements of Stanelco PLC for the year ended 31 October 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the year was that of a holding investment company. Its wholly owned trading subsidiary, Stanelco RF Technologies Limited (formerly Stanelco Fibre Optics Limited) is a developer, manufacturer and supplier of high frequency thermal processing equipment and processes, applications for which include the sealing of plastic containers, using radio frequency (RF). Its other subsidiary undertakings include, InGel Technologies Limited, which is a research and development company and Adept Polymers Limited, a company that specialises in the formulation and manufacture of biodegradable plastic based on polyvinyl alcohol. Stanelco plc also acquired Aquasol Limited on 3 June 2004. Aquasol specialises in designing packaging solutions and has specific expertise in water soluble packaging.

BUSINESS REVIEW

The Chairman provides a review of the business and future developments in his statement on page 3 and further details are contained in the Chief Executive's statement on pages 4 to 8.

RESEARCH AND DEVELOPMENT

The advancement of technology and processes by the Group means costs are incurred in research and development and these have amounted to £1,498,844 (2003: £814,032).

POST BALANCE SHEET EVENTS

Subsequent to the year end the Company has undertaken a placing of 38 million Ordinary 0.1p shares at 12.825p raising approximately £4.7m after expenses which will be used primarily to provide working capital. The Group has also entered into agreement with Cardinal Health Inc to subscribe for a further 5 per cent. of subsidiary InGel Technologies Limited.

RESULTS AND DIVIDENDS

The trading results of the Group for the year are set out in the consolidated profit and loss account on page 23.

The Directors do not recommend payment of a dividend. (2003: 0.01p per share).

Directors' report continued

DIRECTORS AND DIRECTORS' INTERESTS

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

	Ordinary shares of 0.1p each	
	31 October 2004	1 November 2003
Ian H Balchin *(Chief Executive)*	**1,640,000**	—
Robert P Boardman *(Finance Director with effect from 1 February 2005)*	**—**	—
Robert E Duggan	**—**	—
Elizabeth J Filkin *(Senior Independent Non-Executive Director)*	**—**	—
Barrie C Hozier *(Finance Director until 31 January 2005)*	**13,333,333**	13,333,333
Philip A Lovegrove *(Chairman)*	**4,577,083**	4,225,000
Terry M Robins *(Chief Operating Officer)*	**—**	—
Graham J Whitchurch	**—**	—
Howard White *(Deputy Chief Executive)*	**—**	—

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

Share options granted to Directors are set out in the Remuneration Committee report on page 17.

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

In accordance with the Company's articles, Robert Boardman and Terry Robins who having been appointed as Directors since the last Annual General Meeting, stand for election at the forthcoming Annual General Meeting. Barrie Hozier, Non-Executive Director, offers his resignation at the forthcoming Annual General Meeting.

Robert Boardman, 32, has been appointed Finance Director with effect from 1 February 2005. Robert is a Chartered Accountant having qualified with Arthur Andersen. Robert was previously Finance Director at Durlacher Corporation plc and prior to that at Altium Capital. Robert has a degree in History from Manchester University.

Terry Robins, 58 is Chief Operating Officer. Terry spent over 30 years working for J. Sainsbury plc, latterly as Packaging Innovations Manager. Terry was involved with the commercialisation of numerous new packaging developments at J. Sainsbury plc.

Directors' report continued

SUBSTANTIAL SHAREHOLDING

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

	Ordinary shares of 0.1p each	
3 per cent. or more:	**Percentage**	**Number**
The Age of Reason Foundation	25.77	227,078,122
Richards and Appleby (and associated holdings)	8.11	71,457,934
HSBC Global Custody Nominee (UK) Limited	5.75	50,666,666
Barclayshare Nominees Limited	4.83	42,537,391
Chase Nominees Limited	3.29	29,000,000

Mr Ben White, the adult son of Mr Howard White, is the primary beneficiary of The Age of Reason Foundation which holds 227,078,122 Ordinary shares in Stanelco PLC representing 25.77 per cent. of the issued share capital.

DIRECTORS' INTERESTS IN CONTRACTS

Directors' interests in contracts with the Group are disclosed in note 26 to the financial statements.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

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

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

PAYMENT POLICY AND PRACTICE

It is the Company's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of those terms and to abide by them. Trade creditors at the year end amount to 74 days (2003: 51) of average suppliers for the year.

Directors' report continued

CORPORATE GOVERNANCE

Introduction

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

CODE OF BEST PRACTICE

The Board of Directors

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

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

COMMITTEES OF THE BOARD

Remuneration committee

The remuneration committee is comprised of Elizabeth Filkin and Philip Lovegrove. The Committee will be chaired by a Non-Executive Director other than the Chairman. Details of the Company's compliance with Section B of the Combined Code (in relation to Directors' remuneration) are set out in the Directors' remuneration report on pages 14 to 18.

Audit committee

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

Nominations committee

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

Directors' report continued

INTERNAL CONTROL

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

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

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

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

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

SHAREHOLDERS

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

GOING CONCERN

After making enquiries the Directors believe that the Group has sufficient resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

AUDITORS

On 30 April 2004 Jeffreys Henry resigned as auditors. Subsequently Jeffreys Henry LLP were appointed auditors to the Company and in accordance with section 385 of the Companies Act 1985, a resolution proposing that Jeffreys Henry LLP be re-appointed as auditors of the Company will be put to the Annual General Meeting.

By Order of the Board

Robert E Duggan
Secretary

28 February 2005

Directors' remuneration report

The Remuneration Committee comprises two of the Non-Executive Directors. For the accounting period the committee was chaired by Elizabeth Filkin, Senior Independent Director. The Remuneration Committee advises the Board on individual Directors' remuneration packages. The Remuneration Committee has met once during the year and has access to independent advice where it considers it appropriate. The Remuneration Committee considers recommendations from Ian Balchin, Chief Executive at its meetings.

REMUNERATION POLICY

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

BASIC SALARY

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

PERFORMANCE-RELATED INCENTIVES

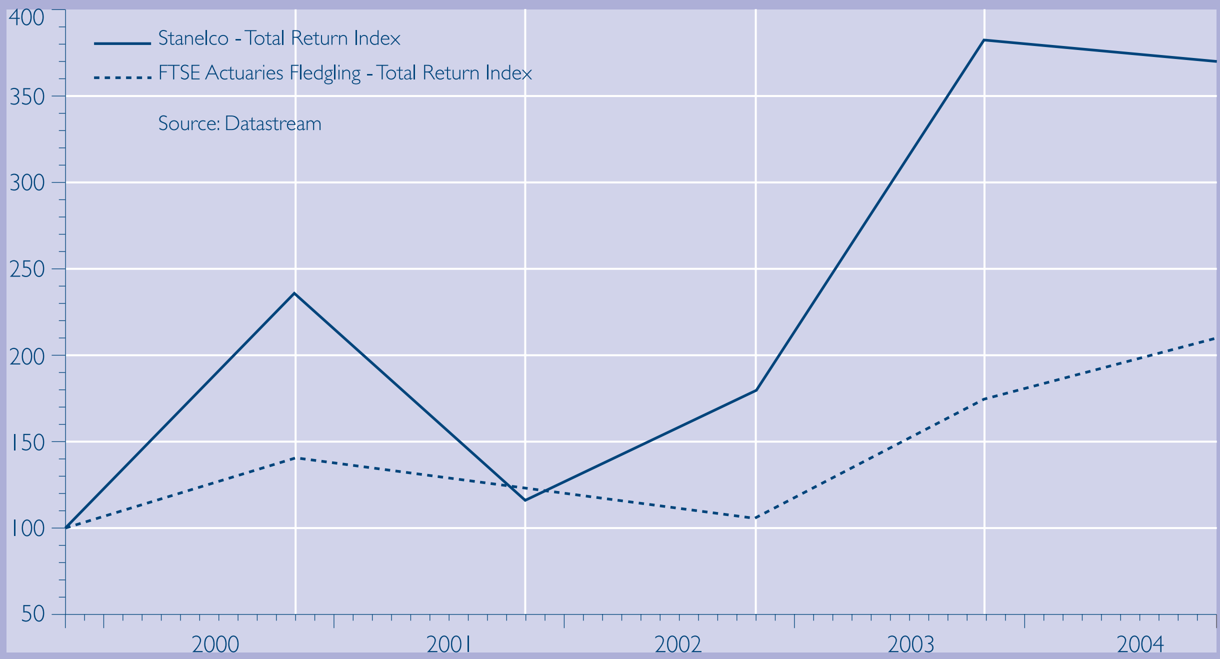
Annual performance-related incentives are considered and awarded based on the performance of both the individuals and the Group and are awarded on the recommendation of the Remuneration Committee. The amount awarded is determined at the end of the financial period by the Committee.

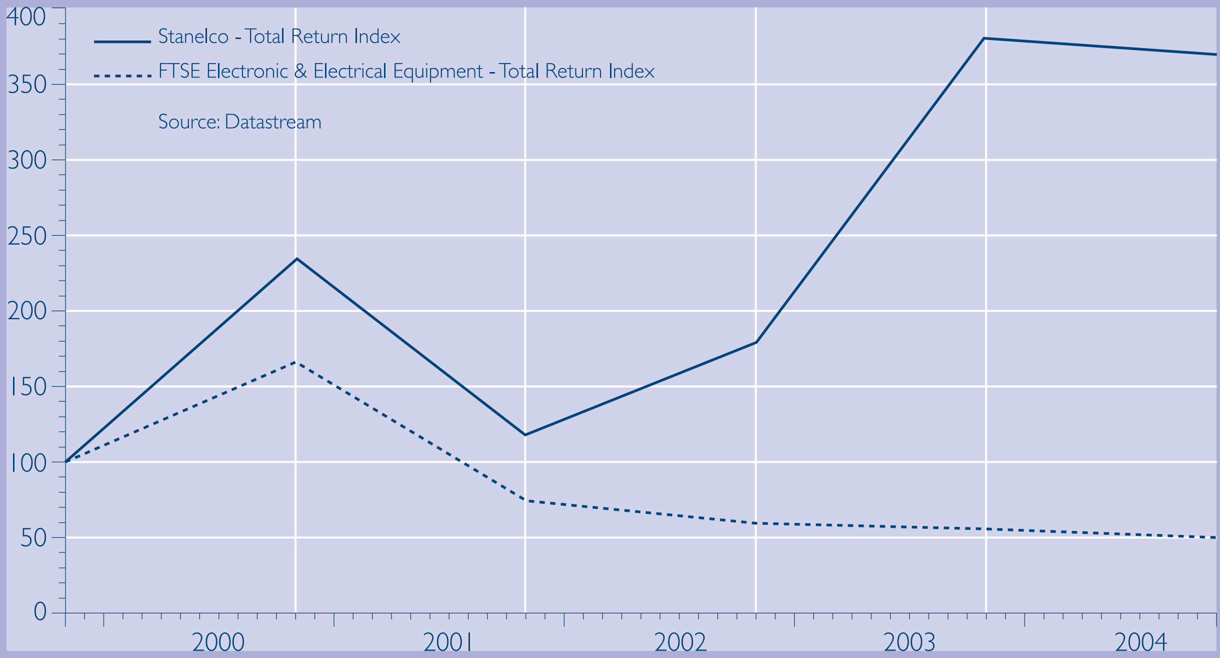
TOTAL SHAREHOLDER RETURN

The following graphs chart the total cumulative shareholder return of the Company since 1 November 1999, compared with the value of £100 invested in the FTSE Electronic and Electrical Equipment Total Return Index, under which Stanelco PLC is listed, and the FTSE Actuaries Fledgling Total Return Index.

Directors' remuneration report continued

Total shareholder return performance graphs





Directors' remuneration report continued

SHARE OPTIONS

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

SERVICE CONTRACTS

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

Directors' contracts and termination notices:

	Date of contract	Termination notice	Renewable
Non-Executive			
Philip A Lovegrove	1 Oct 2003	None	Annually
Elizabeth J Filkin	1 Sept 2003	None	Annually
Barrie C Hozier	27 Jan 2003	None	After 18 months
Executive			
Ian H Balchin	12 Oct 2000	3 months' notice	Normal retirement date
Robert P Boardman	27 Jan 2005	3 months' notice	Normal retirement date
Robert E Duggan	1 Sept 2003	3 months' notice	Normal retirement date
Terry M Robins	4 Jan 2005	3 months' notice	Normal retirement date
Howard White	29 July 2002	None	Annually
Graham J Whitchurch	1 Sept 2003	3 months' notice	Normal retirement date

PENSIONS

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

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

Directors' remuneration report continued

DIRECTORS' SHARE OPTIONS

Director	Date granted	Date exercisable	Date option lapses	Option price	Ordinary Shares of 0.1p each 2004	2003
Ian H Balchin	12 Oct 2000	12 Oct 2003	12 Oct 2010	2.85p	—	46,573,049
Ian H Balchin (EMI)	31 Oct 2001	31 Oct 2004	31 Oct 2011	2.85p	**6,756,750**	6,756,750
Robert E Duggan (EMI)	31 Oct 2002	31 Oct 2005	31 Oct 2012	2.25p	**1,111,111**	1,111,111
Barrie C Hozier	31 Oct 2001	31 Oct 2004	31 Oct 2011	2.56p	**14,670,626**	14,670,244
Barrie C Hozier (EMI)	31 Oct 2001	31 Oct 2004	31 Oct 2011	2.95p	**6,756,750**	6,756,750
Graham J Whitchurch	1 Sept 2003	1 Sept 2006	1 Sept 2013	3.50p	**8,000,000**	8,000,000
Terry M Robins	1 Nov 2003	1 Nov 2006	1 Nov 2013	4.75p	**8,000,000**	—

The Board has approved the recommendation of the Remuneration Committee to award the following share options under the Enterprise Management Incentive scheme (EMI).

Director	Date granted	Date exercisable	Date option lapses	Option price	Ordinary Shares of 0.1p each
Robert E Duggan	3 Feb 2005	3 Feb 2008	3 Feb 2015	10.25p	**731,707**
Robert P Boardman	21 Jan 2005	21 Jan 2008	21 Jan 2015	7.13p	**1,402,525**
Howard White	3 Feb 2005	3 Feb 2008	3 Feb 2015	10.25p	**975,610**

The Company proposes to obtain shareholder approval at its Annual General Meeting 2005 for the adoption of the Stanelco PLC 2005 Unapproved Share Option Plan and the Stanelco PLC Employee Benefit Trust, which subject to such shareholder approval being obtained will be used for the purposes of implementing the plans to incentivise and reward Directors and employees. Further details of the Stanelco PLC 2005 Unapproved Share Option Plan and the Stanelco PLC Employee Benefit Trust and their proposed use are contained in the Notice of the Annual General Meeting 2005.

The Company's share price on 31 October 2004 was 4.5p (2003: 4.75p) and traded during the period at prices between 3.875p and 6.5p (2003: 2.25p and 5.5p).

Directors' remuneration report continued

DIRECTORS' REMUNERATION DURING THE YEAR

	2004				2003
	Salary and fees	Performance related bonus	Benefits in kind	Total	Total
Executive Directors					
Ian H Balchin	**100,000**	—	**1,575**	**101,575**	100,567
Robert E Duggan	**42,500**	**10,000**	**419**	**52,919**	7,083
Barrie C Hozier	**37,500**	—	**2,669**	**40,169**	38,504
Audrey R Shepherd	—	—	—	—	33,615
Graham J Whitchurch *(from 1 Sept 2003)**	**56,595**	—	**839**	**57,434**	11,622
Howard White *(from 1 Sept 2003)*	**10,000**	—	—	**10,000**	1,667
Non-Executive Directors					
Elizabeth J Filkin	**15,000**	—	—	**15,000**	23,330
Ian N Davis *(to 20 June 2002)*	—	—	—	—	6,667
Philip A Lovegrove *(from 1 Sept 2003)*	**15,000**	—	—	**15,000**	2,500
Christopher H B Mills *(to 31 July 2003)*	—	—	—	—	7,500
Howard White	—	—	—	—	8,333
Total Board	**276,595**	**10,000**	**5,502**	**292,097**	241,388

* Graham Whitchurch's remuneration is paid and accounted for by Adept Polymers Limited, a wholly owned subsidiary company. The Group made a pension contribution of £4,245 (2003: £707).

The Company made a contribution of £5,000 (2003: £4,750) to Ian Balchin's personal pension fund.

By Order of the Board
Elizabeth J Filkin
Chairman of the Remuneration Committee

28 February 2005

Independent auditors' report

TO THE SHAREHOLDERS OF STANELCO PLC

We have audited the financial statements on pages 21 to 42 which have been prepared under the historical cost convention and accounting policies set out on pages 21 and 22. We have also audited the information in the Directors' remuneration report on pages 14 to 18 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND AUDITORS

As described on pages 11 to 13 the Company's Directors are responsible for preparing the Annual Report and the Directors' remuneration report. This includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

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

We review whether the corporate governance statement on pages 12 and 13 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

Independent auditors' report continued

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group at 31 October 2004 and of the loss of the Group for the year then ended and the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

Jeffreys Henry LLP
Chartered Accountants
Registered Auditors

Finsgate
5-7 Cranwood Street
London EC1V 9EE

28 February 2005

Principal accounting policies

BASIS OF PREPARATION

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

The accounts have been prepared on a going concern basis as the Directors believe that the Company has access to sufficient resources to continue in business for the foreseeable future.

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

BASIS OF CONSOLIDATION

The Group accounts consolidate the financial statements of the Company and subsidiary undertakings, Stanelco RF Technologies Limited (formerly Stanelco Fibre Optics Limited), Stanelco Products Limited, InGel Technologies Limited, Zircotec Limited, InGel Industrial Limited, Adept Polymers Limited, Starpol Packaging Systems Limited, Starpol Edible Films Limited and Aquasol Limited. Profit or losses on intra-group transactions are eliminated in full.

GOODWILL

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

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at historical cost less depreciation.

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

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

INTANGIBLE FIXED ASSETS

Intangible fixed assets are stated at historical cost less amortisation.

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

Development costs	10-20 per cent. straight line basis

STOCK AND WORK IN PROGRESS

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

Principal accounting policies continued

DEFERRED TAXATION

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

LEASED ASSETS AND OBLIGATIONS

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

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

PENSIONS

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

FOREIGN CURRENCY TRANSLATION, DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

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

Details as to the Group's policies on derivatives and other financial instruments are disclosed in note 25.

TURNOVER

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

RESEARCH AND DEVELOPMENT

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

Consolidated profit and loss account

FOR THE YEAR ENDED 31 OCTOBER 2004

	Notes	**2004** £'000	2003 £'000
Turnover			
Continuing operations		**1,211**	1,851
Acquisitions		**121**	10
	1	**1,332**	1,861
Cost of sales		**(797)**	(1,028)
Gross profit		**535**	833
Distribution costs		**(41)**	(31)
Administrative expenses	1	**(1,682)**	(1,319)
Exceptional items: Costs of change of strategy, restructuring and actions in patent defence	1	**(1,669)**	(130)
Operating loss			
Continuing operations		**(2,787)**	(563)
Acquisitions		**(70)**	(84)
		(2,857)	(647)
Interest receivable and similar income		**14**	24
Interest payable and similar charges	2	**(3)**	—
Loss on ordinary activities before taxation		**(2,846)**	(623)
Taxation	4	**59**	156
Loss on ordinary activities after taxation		**(2,787)**	(467)
Minority interest		**4**	2
Dividends		**(7)**	(70)
Retained loss for the year	16	**(2,790)**	(535)

The calculation of earnings per share is based on the loss after tax for the year of £(2,787,000) (2003: £(467,000) and a weighted average of 753,303,455 (2003: 691,032,490) Ordinary shares in issue

Basic and diluted loss per share – pence		**(0.370)**	(0.068)

All transactions arise from continuing operations.

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

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

Consolidated balance sheet

AS AT 31 OCTOBER 2004

	Notes	At 31 October 2004 £'000	At 31 October 2004 £'000	At 31 October 2003 £'000	At 31 October 2003 £'000
Fixed assets					
Intangible assets	5		**5,567**		1,586
Tangible assets	6		**918**		502
			6,485		2,088
Current assets					
Stock	8	**610**		537	
Debtors	9	**651**		515	
Cash at bank and in hand		**920**		264	
		2,181		1,316	
Creditors: amounts falling due within one year	10	**(1,292)**		(648)	
Net current assets			**889**		668
Total assets less current liabilities			**7,374**		2,756
Creditors: amounts falling due after more than one year	11		**(159)**		—
Provisions for liabilities and charges	12		**(1,093)**		(82)
			6,122		2,674
Capital and reserves					
Called up share capital	13		**832**		702
Share premium account	14		**5,209**		1,597
Shares to be issued	15		**2,500**		—
Profit and loss account	16		**(2,442)**		348
Shareholders' funds	17		**6,099**		2,647
Minority interest – equity interest			**23**		27
			6,122		2,674

The financial statements were approved by the Board on 28 February 2005

Signed on behalf of the Board of Directors

Ian H Balchin *Chief Executive*

Robert E Duggan *Director*

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

Company balance sheet

AS AT 31 OCTOBER 2004

		At 31 October 2004		At 31 October 2003	
	Notes	£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	6		**440**		182
Investment in subsidiary undertakings	7		**3,000**		—
			3,440		182
Current assets					
Debtors	9	**4,934**		1,723	
Cash at bank and in hand		**29**		8	
		4,963		1,731	
Creditors: amounts falling due within one year	10	**(354)**		(78)	
Net current assets			**4,609**		1,653
Total assets less current liabilities			**8,049**		1,835
Provisions for liabilities and charges	12		**—**		(1)
			8,049		1,834
Capital and reserves					
Called up share capital	13		**832**		702
Share premium account	14		**4,674**		1,062
Shares to be issued	15		**2,500**		—
Profit and loss account	16		**43**		70
Shareholders' funds	17		**8,049**		1,834

The financial statements were approved by the Board on 28 February 2005

Signed on behalf of the Board of Directors

Ian H Balchin *Chief Executive*

Robert E Duggan *Director*

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

Consolidated cash flow statement

FOR THE YEAR ENDED 31 OCTOBER 2004

	Notes	2004 £'000	2003 £'000
Net cash outflow from operating activities	18	**(731)**	(367)
Returns on investments and servicing of finance			
Interest received		**14**	23
Interest paid		**(3)**	—
Net cash inflow from returns on investments and servicing of finance		**11**	23
Taxation			
Corporation tax paid		**—**	(4)
Capital expenditure and financial investment			
Investment in intangible fixed assets		**(1,466)**	(619)
Sale of tangible fixed assets		**79**	33
Purchase of tangible fixed assets		**(280)**	(144)
Net cash outflow from capital expenditure and financial investment		**(1,667)**	(730)
Acquisitions and disposals			
Cash at bank acquired with subsidiary	21	**59**	256
Equity dividends paid			
Dividends paid		**(79)**	(65)
Financing			
Issue of ordinary share capital		**2,919**	—
Capital element of finance lease payments		**(3)**	—
New bank loan		**150**	—
Repayment of loan capital		**(3)**	—
Net cash inflow from financing		**3,063**	—
Increase/(decrease) in cash	19	**656**	(887)

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

Notes to the financial statements

FOR THE YEAR ENDED 31 OCTOBER 2004

1. TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2004 £'000	2003 £'000
Turnover		
Sales are made from the United Kingdom into the following geographical markets:		
United Kingdom	**647**	800
Europe	**98**	373
Asia	**472**	379
North America	**40**	304
Rest of world	**75**	5
	1,332	1,861

The world-wide activities of Stanelco PLC are highly integrated and, accordingly, it is not possible to present geographical segment information for profit before tax without making internal allocations, some of which are necessarily subjective. The net assets for the United Kingdom are as stated in the consolidated balance sheet on page 24.

	2004 £'000	2003 £'000
The profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation, amortisation and impairment:		
Intangible fixed assets, owned	**348**	59
Tangible fixed assets, owned	**157**	122
Tangible fixed assets, leased	**14**	—
Goodwill on investments	**60**	—
Loss on disposal of tangible fixed assets	**68**	—
Auditors' remuneration:		
audit work	**46**	17
non-audit work	**29**	8
Hire of plant and machinery	**5**	4
Operating lease rentals: Land and buildings	**123**	62
Loss on foreign exchange transactions	**2**	—
Exceptional items:		
Costs of change of strategy, restructuring and patent defence, more details of which are set out in the Chief Executives statement	**1,669**	—
Bad debt provision	**—**	130
And after crediting:		
Profit on disposal of tangible fixed assets	**—**	(5)

Notes to the financial statements continued

FOR THE YEAR ENDED 31 OCTOBER 2004

2. INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £'000	2003 £'000
Finance leases	**1**	—
Bank loan and other interest	**2**	—
	3	—

3. DIRECTORS AND EMPLOYEES

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

	2004 Number	2003 Number
Management	**11**	11
Administration	**8**	5
Sales	**4**	3
Manufacturing and engineering	**21**	17
	44	36

	£'000	£'000
Staff costs:		
Wages and salaries	**1,192**	962
Social security costs	**130**	109
Other pension costs – personal pension contribution	**22**	11
	1,344	1,082
Directors' remuneration		
Emoluments	**292**	241
Pension costs – personal pension contributions	**10**	6
	302	247

The aggregate emoluments of the highest paid Director, excluding pension contributions were £101,575 (2003: £100,567). This Director also received a contribution to his personal pension scheme of £5,000 (2003: £5,000).

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

Notes to the financial statements continued

FOR THE YEAR ENDED 31 OCTOBER 2004

4. TAXATION

(a) *Analysis of charge in the year*

	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Current taxation:				
UK corporation tax at 30 per cent. (2003: 19 per cent.)	(35)		—	
Adjustments in respect of prior periods:	40		(25)	
		5		(25)
Total current tax (note 4b)		5		(25)
Deferred taxation:				
Origination and reversal of timing differences	(64)		(131)	
Total deferred tax (note 12)		(64)		(131)
		(59)		(156)

(b) *Factors affecting tax charge for the year*

	2004 £'000	2003 £'000
Loss on ordinary activities before taxation	(2,846)	(624)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30 per cent. (2003: 19 per cent.)	(854)	(118)
Expenses disallowed	15	(41)
Research and development allowance	(25)	(94)
Losses surrendered for research and development tax credits	75	—
Research and development tax credits receivable	(35)	—
Depreciation in excess of capital allowances	51	26
Losses eliminated on consolidation	18	—
Increase in general provisions	13	1
Adjustment to tax charge in respect of previous periods	40	(25)
Losses carried forward	707	226
	5	(25)

The Group has estimated trading losses of £3,226,000 available for carry forward against future trading profits.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 OCTOBER 2004

5. INTANGIBLE FIXED ASSETS

Group

	Goodwill arising on consolidation of investment in subsidiary undertakings £'000	Development costs £'000	Total £'000
Cost:			
At 1 November 2003	—	1,658	1,658
Additions	2,889	1,499	4,388
At 31 October 2004	**2,889**	**3,157**	**6,046**
Amortisation:			
At 1 November 2003	—	72	72
Provided in the year – charge for the year	60	71	131
– impairment	—	276	276
At 31 October 2004	**60**	**419**	**479**
Net book value:			
At 31 October 2004	**2,829**	**2,738**	**5,567**
At 31 October 2003	—	1,586	1,586

Notes to the financial statements continued

FOR THE YEAR ENDED 31 OCTOBER 2004

6. TANGIBLE FIXED ASSETS

Group

	Leasehold improvements £'000	Plant and equipment £'000	Fixtures fittings and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 November 2003	—	465	201	180	846
Additions	152	475	46	62	735
Disposals	—	(164)	(102)	(40)	(306)
At 31 October 2004	152	776	145	202	1,275
Depreciation					
At 1 November 2003	—	127	96	121	344
Provided in the year	1	95	40	36	172
Disposals	—	(63)	(58)	(38)	(159)
At 31 October 2004	1	159	78	119	357
Net book value:					
31 October 2004	**151**	**617**	**67**	**83**	**918**
Net book value:					
31 October 2003	—	338	105	59	502

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

	Motor vehicles £'000
Net book value:	
At 31 October 2004	**41**
Depreciation charge for the year:	
At 31 October 2004	**14**

Notes to the financial statements continued

FOR THE YEAR ENDED 31 OCTOBER 2004

6. TANGIBLE FIXED ASSETS continued

Company

	Plant and equipment £'000	Fixtures fittings and equipment £'000	Total £'000
Cost:			
At 1 November 2003	176	9	185
Additions	320	7	327
Disposals	(16)	(1)	(17)
At 31 October 2004	**480**	**15**	**495**
Depreciation:			
At 1 November 2003	2	2	4
Charge for year	50	3	53
Disposals	(2)	—	(2)
At 31 October 2004	**50**	**5**	**55**
Net book value:			
At 31 October 2004	**430**	**10**	**440**
At 31 October 2003	174	7	182

7. FIXED ASSETS INVESTMENTS

Company

	Total £'000
Investment in subsidiary undertakings	
Cost:	
1 November 2003	533
Additions	3,000
31 October 2004	**3,533**
Amortisation and provision for diminution in value:	
At 1 November 2003 and 31 October 2004	**533**
Net book value at 31 October 2004	**3,000**
Net book value at 31 October 2003	—

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.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 OCTOBER 2004

7. FIXED ASSETS 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 Products Limited	England and Wales	2 Ordinary £1 shares	100
Stanelco RF Technologies Limited (formerly Stanelco Fibre Optics Limited)	England and Wales	2 Ordinary £1 shares	100
InGel Technologies Limited	England and Wales	9,500 Ordinary "A" 1p shares	95
Zircotec Limited	England and Wales	1 Ordinary £1 share	100
InGel Industrial Limited	England and Wales	2 Ordinary £1 shares	100
Adept Polymers Limited	England and Wales	2 Ordinary £1 shares	100
Starpol Packaging Systems Limited	England and Wales	1 Ordinary £1 share	100
Starpol Edible Films Limited	England and Wales	1 Ordinary £1 share	100
Aquasol Limited	England and Wales	29,000 Ordinary £1 shares	100

Stanelco RF Technologies Limited (formerly Stanelco Fibre Optics Limited) is involved in the development, manufacture and supply of high frequency thermal processing equipment and processes including the sealing of plastic containers, using RF. InGel Technologies Limited is a development company. Adept Polymers Limited is a company that specialises in the formulation and manufacture of biodegradable plastic based on polyvinyl alcohol. Aquasol Limited was acquired on 3 June 2004 and specialises in designing packaging solutions and has specific expertise in water soluble packaging. Stanelco Products Limited, Zircotec Limited, InGel Industrial Limited, Starpol Packaging Systems Limited and Starpol Edible Films Limited did not trade during the year.

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

8. STOCK

Group

	2004 **£'000**	2003 £'000
Raw materials and consumables	**422**	322
Work in progress	**114**	90
Finished goods and goods for resale	**74**	125
	610	537

Notes to the financial statements continued

FOR THE YEAR ENDED 31 OCTOBER 2004

9. DEBTORS

Group

	2004 £'000	2003 £'000
Trade debtors	272	297
Corporation tax	15	—
Other debtors	236	94
Prepayments and accrued income	128	124
	651	515

Company

	2004 £'000	2003 £'000
Amounts owed by subsidiary undertakings	4,930	1,691
Other debtors	4	32
	4,934	1,723

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Group

	2004 £'000	2003 £'000
Bank loans and overdrafts	21	—
Net obligations under finance leases	18	—
Trade creditors	694	328
Payments on account	—	4
Corporation tax	20	—
Other taxation and social security costs	359	38
Dividends	6	78
Other creditors	30	1
Accruals and deferred income	144	199
	1,292	648

The Group's bank overdraft facilities are secured by a standard debenture issued over the Group's current assets in favour of their bankers and are repayable on demand. The subsidiary Stanelco RF Technologies Limited has taken a 7 year variable interest loan of £150,000 (2003: £ nil) with interest rates of 3 per cent. above the bank's base lending rate.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 OCTOBER 2004

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR continued

Company

	2004 £'000	2003 £'000
Corporation tax	13	—
Dividends	6	78
Other taxation and social security costs	311	—
Other creditors	24	—
	354	78

11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Group

	2004 £'000	2003 £'000
Bank loan	126	—
Net obligations under finance leases	33	—
	159	—
Analysis of loans		
Wholly repayable within five years	147	—
Included in current liabilities	(21)	—
	126	—
Loan maturity analysis		
In more than two years but not more than five years	64	—
In more than five years	62	—
	126	—
Net obligations under finance leases		
Repayable between one and five years	51	—
Included in current liabilities	(18)	—
	33	—

The subsidiary Stanelco RF Technologies Limited has taken a 7 year variable interest loan of £150,000 (2003: £nil) with interest rates of 3 per cent. above the bank's base lending rate secured under a first debenture over the assets and under the bank's standard debenture.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 OCTOBER 2004

12. PROVISIONS FOR LIABILITIES AND CHARGES

Group

	Deferred tax provision £'000	Warranty provision £'000	Other provisions £'000	Total £'000
At 1 November 2003	64	18	—	82
Utilised in the year	(64)	(18)	—	(82)
Provided in year	—	12	1,081	1,093
At 31 October 2004	**—**	**12**	**1,081**	**1,093**
At 1 November 2002	195	15	—	210
Utilised in the year	(131)	(15)	—	(146)
Provided in year	—	18	—	18
At 31 October 2003	64	18	—	82

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

Other provisions relate primarily to best estimates of the costs incurred and committed in respect of the recent change of strategy, restructuring and actions in defence of patents.

Company

	2004 £'000	2003 £'000
Deferred tax		
At 1 November 2003	**1**	—
Accelerated capital allowances (note 4)	**(1)**	1
At 31 October 2004	**—**	1

13. SHARE CAPITAL

Group

	2004 £'000	2003 £'000
Authorised		
1,100,000,000 Ordinary shares of 0.1p each	**1,100**	885
Allotted, issued and fully paid		
831,915,283 (2003: 702,329,750) Ordinary shares of 0.1p each	**832**	702

Notes to the financial statements continued

FOR THE YEAR ENDED 31 OCTOBER 2004

13. SHARE CAPITAL continued

During the year, 129,585,533 new shares were issued at an average price of 3.03p each. 58,527,479 shares were issued in respect of the 1/12 rights issues, 6,000,000 shares for the acquisition of assets for use at Adept Polymers Limited, 10,000,000 shares for the first instalment for the acquisition of Aquasol Limited and 55,058,054 shares in respect of the exercise of Directors' and employees' share options.

The number of share options outstanding under Enterprise Management Incentive Schemes and other schemes not approved by the Inland Revenue as at 31 October 2004 was as follows:

	Option price per ordinary share	Number
Enterprise Management Incentive Schemes		
exercisable in the period between		
July 2004 and July 2011	2.87p	1,742,160
October 2004 and October 2011	2.85p	6,756,750
October 2004 and October 2011	2.95p	6,756,756
October 2005 and October 2012	2.25p	5,111,089
October 2007 and October 2014	3.875p	9,300,000
Inland Revenue Unapproved Schemes		
exercisable in the period between		
July 2004 and July 2011	2.87p	1,742,160
October 2004 and October 2011	2.87p	871,080
October 2004 and October 2011	2.559p	14,670,626
October 2004 and October 2011	2.663p	5,538,866
October 2005 and October 2012	2.25p	444,444
September 2006 and September 2013	3.5p	8,000,000
November 2006 and November 2013	4.75p	8,000,000

As at 31 October 2004 there were 34 (2003: 14) participants in Enterprise Management Incentive Schemes and 4 (2003: 4) participants in Inland Revenue Unapproved Schemes.

During the year options over nil (2003:1,097,754) shares within Enterprise Management Incentive Schemes lapsed and 444,444 (2003: 2,613,240) where disqualified from membership of the Enterprise Management Incentive Scheme.

The closing price of the Ordinary shares at 31 October 2004 was 4.50p (2003: 4.75p).

Notes to the financial statements continued

FOR THE YEAR ENDED 31 OCTOBER 2004

14. SHARE PREMIUM ACCOUNT

	2004 £'000	2003 £'000
Group		
At 1 November 2003	**1,597**	1,081
Premium on issue of shares (nominal value £129,586)	**3,612**	516
At 31 October 2004	**5,209**	1,597
Company		
At 1 November 2003	**1,062**	546
Premium on issue of shares (nominal value £129,586)	**3,612**	516
At 31 October 2004	**4,674**	1,062

15. SHARES TO BE ISSUED

Group and Company

	2004 £'000	2003 £'000
At 1 November 2003	**—**	—
Shares to be issued in respect of purchase of subsidiary	**2,500**	—
At 31 October 2004	**2,500**	—

16. PROFIT AND LOSS ACCOUNT

Group

	2004 £'000	2003 £'000
At 1 November 2003	**348**	883
Retained loss for the year	**(2,790)**	(535)
Accumulated loss at 31 October 2004	**(2,442)**	348
Company		
At 1 November 2003	**70**	116
Retained loss for the year	**(27)**	(46)
Accumulated profit at 31 October 2004	**43**	70

In accordance with the concession granted under Section 230 Companies Act 1985, the profit and loss account of the holding company has not been separately presented. The retained loss after dividends of the holding company for the year is £(27)k (2003: £46k).

Notes to the financial statements continued

FOR THE YEAR ENDED 31 OCTOBER 2004

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group

	2004	2003
	£'000	£'000
Loss for the financial year	**(2,787)**	(467)
Minority interest	**4**	2
Dividends	**(7)**	(70)
	(2,790)	(535)
New share capital subscribed	**3,742**	531
Shares to be issued	**2,500**	—
Opening shareholders' funds	**2,647**	2,651
Closing shareholders' funds	**6,099**	2,647

Company

	2004	2003
(Loss)/ profit for the financial year	**(20)**	24
Dividends	**(7)**	(70)
	(27)	(46)
New share capital subscribed	**3,742**	531
Shares to be issued	**2,500**	—
Opening shareholders' funds	**1,834**	1,349
Closing shareholders' funds	**8,049**	1,834

18. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

Group

	2004	2003
	£'000	£'000
Operating loss	**(2,857)**	(647)
Amortisation and impairment of intangible fixed assets	**348**	59
Depreciation of tangible fixed assets	**171**	129
Amortisation of goodwill	**60**	—
Loss/(profit) on sale of tangible fixed assets	**68**	(5)
(Increase)/decrease in stocks	**(61)**	120
(Increase)/ decrease in debtors	**(98)**	314
Increase/(decrease) in creditors	**563**	(340)
Increase in provision for liabilities and charges	**1,075**	3
Net cash outflow from operating activities	**(731)**	(367)

Notes to the financial statements continued

FOR THE YEAR ENDED 31 OCTOBER 2004

19. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

Group

	2004 £'000	2003 £'000
Increase/(decrease) in cash in the year	**656**	(887)
Cash inflow from increase in debt lease financing	**(144)**	—
New finance leases	**(54)**	—
Change in net debt resulting from cash flows	**458**	(887)
Net funds at 1 November 2003	**264**	1,151
Net funds at 31 October 2004	**722**	264

20. ANALYSIS OF CHANGES IN NET FUNDS/DEBT

Group

	1 November 2003 £'000	Cash flow £'000	Acquisition (excluding cash and overdrafts) £'000	Other non-cash changes £'000	31 October 2004 £'000
Cash at bank and in hand	264	656	—	—	**920**
		656			
Bank loan	—	(147)	—	—	**(147)**
Finance leases	—	3	—	(54)	**(51)**
	264	512	—	(54)	**722**

21. PURCHASE OF SUBSIDIARY UNDERTAKINGS

	2004 £'000
Net assets acquired	
Intangible assets	**22**
Tangible fixed assets	**78**
Stocks	**12**
Debtors	**22**
Cash at bank and in hand	**59**
Creditors	**(83)**
Goodwill	**2,890**
	3,000
Satisfied by	
Shares issued to the vendors	**500**
Shares to be issued to the vendors	**2,500**
	3,000

Notes to the financial statements continued

FOR THE YEAR ENDED 31 OCTOBER 2004

21. PURCHASE OF SUBSIDIARY UNDERTAKINGS continued

Aquasol Limited utilised £43k of the Group's operating cash flows, received £1k in respect of net returns on investments and servicing of finance and paid £nil in respect of taxation. It had a net cash outflow of £15k from capital expenditure and financial investment.

22. CAPITAL COMMITMENTS

The Group had no capital commitments at 31 October 2004 and 31 October 2003.

23. COMMITMENTS UNDER OPERATING LEASES

At 31 October 2004 the Group had annual commitments under non-cancellable operating leases as follows:

	2004	2003
	£'000	£'000
Land and buildings:		
Expiring in less than one year	**32**	—
Expiring between two and five years	**—**	48
Expiring after five years	**107**	—
Other operating leases:		
Expiring between two and five years	**8**	—

24. PENSION COMMITMENTS

The Group makes contributions to personal pension plans schemes based on contractual terms. The contribution charge for the year was £22k (2003: £11k).

25. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

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

Foreign currency risk

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

Interest rate risk

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

Liquidity risk

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

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

Notes to the financial statements continued

FOR THE YEAR ENDED 31 OCTOBER 2004

26. CONTRACTS IN WHICH DIRECTORS HAVE AN INTEREST

Philip Lovegrove (Chairman) is also a Director of Fiske Plc who were appointed by the Board as brokers to the Company in October 2003 and acted until May 2004.

Fiske Plc had been engaged to provide stockbroking services to the Company for which a fee of £15,000pa was payable.

27. CONTINGENT LIABILITIES

Certain patents relating to Stanelco's edible capsule making technology has been the subject of litigation between our subsidiary Stanelco RF Technologies Limited and BioProgress Technology Limited, more details of which are set out in the Chief Executive's statement.

The Board have made provision against the estimated costs associated with this litigation and its possible outcomes based on legal advice.

28. CONTROL

There is no ultimate Parent of the Group.

29. RELATED PARTY TRANSACTIONS

During the period the Company had no related party transactions.

For your notes

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