BioPlastics

RF Applications

STANELCO PLC

Consolidated Unaudited Interim Accounts for the six months ended 30 June 2008

BioPlastics
RF Applications

Officers

Executive Directors:

Paul R Mines	Chief Executive
Clive H Warner	Finance Director and Company Secretary

Non-Executive Directors:

Elizabeth J Filkin	Senior Independent Director
John F Standen	Chairman

Registered office:

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Hampshire
SO40 4BL

Company registration no: 1873702 (England and Wales)

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Chairman's statement

Sales during the first half of 2008 gained momentum and, by period end, had almost doubled reaching 92% of the sales level for the full year of 2007. Group revenues increased from £3.9m to £7.4m in the period ended 30 June 2008 (an increase of 92%) compared with the six months ended 30 June 2007.

The increase was achieved by driving sales of biodegradable resin through Stanelco directly (a fourfold increase) and further growth at the Group's Biotec subsidiary, where volumes in the first half of 2008 have doubled to exceed the total for the full year 2007.

The re-organisation of the business during the last year into the two distinct divisions of BioPlastics and Radio Frequency Applications (RF) has provided the Group with commercial opportunities for the Group's intellectual property (IP) and technology. Within the BioPlastics division, targeted commercialisation moved forward, rapidly gaining sales traction in various end-uses throughout the European market.

The Group's net loss reduced to £1.0m from £3.7m in the same period last year whilst the Group made a loss from operations of £1.6m compared with a loss of £3.7m for the six months to 30 June 2007 and £1.9m for the six months to 31 December 2007 (the same period last year included £2.0m of exceptional items).

The Group's closing cash position at 30 June 2008 was £6.2m.

Stanelco BioPlastics

The BioPlastics division has made considerable progress in the period with revenues increasing to £7.0m in the period ended 30 June 2008 compared with £3.3m in the six months ended 30 June 2007 and £3.6m in the six months ended 31 December 2007.

The first signs of factors changing the nature of and driving the growth of the bioplastics market are emerging. Initial participants were brand-owner/converters, characterised as innovators/early adopters who saw a business opportunity and began experimentation early. Now, more mature players are participating in the supply chain as the potential for sustained growth is appreciated.

The social ethos driving the market is shifting from 'bio-degradability' and end-of-life concerns to the 'sustainability' of biomass sourced plastics in the world of higher oil prices. Coupled with a broadening of the customer base, this is driving product innovation with regard to raw material sourcing as well as the functional characteristics of bioplastics materials.

Stanelco's BioPlastics division is now recognised as a capable bioplastics innovator, with a strong focus on customer service and support. In the first half of 2008, the BioPlastics team undertook 27 sets of customer trials (each containing between one and four individual trials) of which 21 have led to production orders of Bioplast materials. Success is being achieved in applying our IP and technology to a broadening set of end uses, including sheet products for thermoforming, injection moulded articles and extrusion coating amongst others.

We continue to invest in the pilot facilities in Southampton. The development costs incurred in the first half of £154,000 were in line with the Board's expectations and we have already begun to see the benefits of this through new concepts being developed. This will be essential to business growth, and, as we continue to gain traction with this division, we anticipate strengthening the team and increasing its new product output over the coming months.

During the period, the Group announced the licensing of the design and manufacture of FROGMAT biodegradable packaging to MonoSol LLC (MonoSol). Subsequently, the first development/production machine for FROGMAT, developed in the UK, has also been sold to MonoSol.

The Biotec subsidiary in Germany is a joint venture with SPhere SA. Biotec saw substantive volume growth in the period driven by the sales growth experienced by both partners. Further strengthening of the local team is being considered to address the increased production levels of the first half.

Biotec's product range, manufacturing capability and underlying science continues to provide a robust platform for Stanelco's further growth.

Stanelco RF Applications

The radio frequency applications division traded in line with the Board's expectations, with sales of £0.4m.

We continue to consolidate the division's position as the pre-eminent supplier of RF furnaces to the optical fibre market. The new product pipeline remains robust, and the business was reinforced in May by the recruitment of Neil Martin as General Manager. Neil has over 20 years of experience within the high technology sector, and in particular has extensive experience of the Asian market.

Demand for RF furnaces continues to be firm, with enquiries continuing to increase largely driven by fibre demand in Asia. Since the period end, Stanelco shipped a furnace to a Chinese customer incorporating the first of a new generation of RF generators, designed and built in-house. This brings the number of substantive new product launches in 2008 to three.

Assets and Cash

At the start of the period the Group had cash balances of £8.1m. During the period the Group invested £102,000 in development equipment and utilized £1.2m of working capital to fund growth. At period end, the cash balance had reduced in line with Board expectations to £6.2m.

Shareholders' funds have reduced by £0.2m to £21.1m during the six month period.

Outlook

We are pursuing our strategy of delivering sustainable and profitable growth; the first six months of this year have demonstrated good progress in achieving this goal. The substantial increase in sales of our products in the BioPlastics division is particularly notable. We believe that much of this is repeatable business and that this momentum should be sustainable in the second half of the year. Our challenge remains to increase margins in this part of the business but this should be possible over time.

We are continuing to look for compatible and sensible investment opportunities to gain greater momentum for our strategy and provide shareholders with a better return on the value within the Group.

We believe the second half of the year will underline the progress we have made in the first half of the year.

John Standen
Chairman

29 August 2008

Condensed unaudited consolidated income statement

FOR THE PERIOD ENDED 30 JUNE 2008

	Note	**6 Months ended 30 June 2008**	6 Months ended 30 June 2007 As restated	12 Months ended 31 December 2007 As restated
		£'000	£'000	£'000
REVENUE	5a – 5c	**7,411**	3,868	8,064
Cost of sales	4	**(5,832)**	(3,100)	(6,201)
GROSS PROFIT		**1,579**	768	1,863
Distribution costs		**(248)**	(69)	(227)
Administrative expenses		**(2,970)**	(2,402)	(4,752)
Exceptional Items		**—**	(2,006)	(2,527)
LOSS FROM OPERATIONS	5a – 5c	**(1,639)**	(3,709)	(5,643)
Investment revenue		**265**	289	614
Finance charges		**(135)**	(264)	(458)
Foreign Exchange gain		**360**	—	469
LOSS BEFORE TAXATION		**(1,149)**	(3,684)	(5,018)
Taxation		**165**	—	(31)
LOSS FOR THE PERIOD		**(984)**	(3,684)	(5,049)
Attributable to:				
Equity holders of the parent		**(850)**	(3,575)	(4,583)
Minority interest		**(134)**	(109)	(466)
RETAINED FOR THE PERIOD		**(984)**	(3,684)	(5,049)

The calculation of earnings per share is based on the loss after tax for the six months of £984,154 (2007: £5,049,467) and a weighted average of 3,021,403,333 (2007: 2,996,577,096) ordinary shares in issue.

Basic and diluted loss per share – pence	**(0.032)**	(0.124)	(0.169)

Condensed unaudited consolidated balance sheet

AS AT 30 JUNE 2008

	Note	**At 30 June 2008**	At 30 June 2007 As restated	At 31 December 2007
		£'000	£'000	£'000
NON-CURRENT ASSETS				
Goodwill	6	**13,682**	11,628	12,725
Other intangible assets		**202**	206	216
Property, plant and equipment		**4,445**	4,296	4,364
		18,329	16,130	17,305
CURRENT ASSETS				
Inventories	7	**4,665**	3,480	6,519
Trade and other receivables	8	**3,293**	1,931	1,878
Amounts due in respect of deferred consideration		**—**	1,371	—
Corporation tax		**—**	439	—
Cash and cash equivalents		**6,204**	9,680	8,059
		14,162	16,901	16,456
TOTAL ASSETS		**32,491**	33,031	33,761
CURRENT LIABILITIES				
Trade and other payables	9	**3,744**	2,086	4,765
Amounts payable in respect of deferred consideration		**—**	1,808	466
Promissory notes	10	**6,205**	5,218	5,672
Obligations under finance lease		**212**	253	169
Short term provisions		**387**	615	441
		10,548	9,980	11,513
NON-CURRENT LIABILITIES				
Obligations under finance lease		**794**	1,014	938
TOTAL LIABILITIES		**11,342**	10,994	12,451
NET ASSETS		**21,149**	22,037	21,310

Condensed unaudited consolidated balance sheet continued

AS AT 30 JUNE 2008

	Note	**At 30 June 2008**	At 30 June 2007 As restated	At 31 December 2007
		£'000	£'000	£'000
EQUITY				
Share capital	11	**3,078**	3,012	3,012
Share premium account		**38,615**	38,199	38,199
Share options reserve		**646**	904	883
Translation reserves		**405**	281	102
Retained losses		**(25,906)**	(24,050)	(25,056)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**16,838**	18,346	17,140
Minority interest		**4,311**	3,691	4,170
TOTAL EQUITY		**21,149**	22,037	21,310

The interim statements were approved by the Board on 29 August 2008

Signed on behalf of the Board of Directors

Paul R Mines (Chief Executive)

Clive H Warner (Financial Director)

29 August 2008

Condensed unaudited consolidated statement of changes in equity

AS AT 30 JUNE 2008

	Share capital	Share premium account	Share options reserve	Translation reserves	Retained losses	Attributable to equity holders of the parent	Minority interest	TOTAL EQUITY
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 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	—	—	—	(12)	(2)	(14)	47	33
Net income recognised directly in equity	—	—	—	(12)	(2)	(14)	47	33
Loss for the period	—	—	—	—	(3,575)	(3,575)	(109)	(3,684)
Total recognised income and expense for the period	—	—	—	(12)	(3,577)	(3,589)	(62)	(3,651)
Minority share of increase in subsidiaries capital reserve	—	—	—	—	—	—	681	681
New share capital subscribed	34	267	—	—	—	301	—	301
Share option credits	—	—	(112)	—	—	(112)	—	(112)
Balance at 30 June 2007 as restated	3,012	38,199	904	281	(24,050)	18,346	3,691	22,037
Balance at 1 July 2007	3,012	38,199	904	281	(24,050)	18,346	3,691	22,037
Exchange differences arising on translation of overseas operation	—	—	—	(179)	2	(177)	788	611
Net income recognised directly in equity	—	—	—	(179)	2	(177)	788	611
Loss for the period	—	—	—	—	(1,008)	(1,008)	(357)	(1,365)
Total recognised income and expense for the period	—	—	—	(179)	(1,006)	(1,185)	431	(754)
Capital contribution to subsidiary from minority shareholder	—	—	—	—	—	—	48	48
Share option credits	—	—	(21)	—	—	(21)	—	(21)
Balance at 31 December 2007	3,012	38,199	883	102	(25,056)	17,140	4,170	21,310

Condensed unaudited consolidated statement of changes in equity continued

AS AT 30 JUNE 2008

	Share capital	Shares premium account	Share options reserve	Translation reserves	Retained losses	Attributable to equity holders of the parent	Minority interest	TOTAL EQUITY
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
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	—	—	—	303	—	303	275	578
Net income recognised directly in equity	—	—	—	303	—	303	275	578
Loss for the period	—	—	—	—	(850)	(850)	(134)	(984)
Total recognised income and expense for the period	—	—	—	303	(850)	(547)	141	(406)
New share capital subscribed	66	416	—	—	—	482	—	482
Share option credits	—	—	(237)	—	—	(237)	—	(237)
Balance at 30 June 2008	**3,078**	**38,615**	**646**	**405**	**(25,906)**	**16,838**	**4,311**	**21,149**

Condensed unaudited consolidated cash flow statement

FOR THE PERIOD ENDED 30 JUNE 2008

	Note	**6 Months ended 30 June 2008**	6 Months ended 30 June 2007	12 Months ended 31 December 2007
		£'000	£'000	£'000
Net cash outflow from operating activities	12	**(1,861)**	(3,568)	(4,248)
Investing activities				
Interest received		**265**	289	614
Proceeds on disposal of property, plant and equipment		—	565	673
Investment in intangible assets		**(4)**	(7)	(71)
Purchase of property, plant and equipment		**(117)**	(864)	(1,029)
Settlement of deferred consideration		**(487)**	(1,180)	(1,180)
Net cash used in investing activities		**(343)**	(1,197)	(993)
Financing activities				
Repayment of loan capital		—	(5)	(5)
Repayment of obligations under finance lease		**(134)**	(100)	(157)
Proceeds of issue of ordinary share capital		**483**	301	301
Proceeds from leaseback		—	1,300	1,300
Net cash from financing activities		**349**	1,496	1,439
Net (decrease) in cash and cash equivalents		**(1,855)**	(3,269)	(3,802)
Cash and cash equivalents at beginning of period		**8,059**	12,916	12,916
Effect of foreign exchange rate changes		**576**	33	(1,055)
Cash and cash equivalents at end of period		**6,204**	9,680	8,059

Notes to the interim statements

FOR THE PERIOD ENDED 30 JUNE 2008

1. **CORPORATE INFORMATION**

The results for the year to 31 December 2007 do not constitute statutory accounts. They are an abridged version of the full accounts which received an unqualified report from the auditors and have been filed with the Registrar of Companies. The interim results are unaudited. Stanelco Plc is a public limited company incorporated and domiciled in England & Wales. The company's shares are publicly traded on the London Stock Exchange.

2. **BASIS OF PREPARATION**

This financial information has been prepared on the basis of the recognition and measurement requirements of IFRSs in issue that are adopted by the EU and are expected to be effective at 31 December 2008. The group has also complied with International Accounting Standard 34 "Interim Financial Reporting".

This financial information has been prepared on a historical cost basis.

The accounting policies applied in preparing the interim report for the period ended 30 June 2008 are unchanged from those adopted in the financial statements for the year ended 31 December 2007.

3. **BASIS OF CONSOLIDATION**

The Group interim statements consolidate the results of the company and all of its subsidiary undertakings drawn up to 30 June 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 30 June 2008 the subsidiary undertakings were Stanelco RF Technologies Limited, Stanelco Products Limited, InGel Technologies Limited, Zircotec 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. During the 6 month period to 30 June 2008 the subsidiary undertakings InGel Industrial Limited, Starpol Packaging Systems Limited, Greenseal Technologies Inc and Starpol Edible Films Limited which were all dormant since incorporation were closed.

The Group's shareholding in Biotec is 50 per cent. 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.

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.

Notes to the interim statements continued

FOR THE PERIOD ENDED 30 JUNE 2008

3. **BASIS OF CONSOLIDATION** continued

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.

4. **RESTATEMENT OF PRIOR PERIOD RESULTS**

Production costs have historically been included within Administration expenses. The significant increase in volume and turnover has resulted in the need to move production costs to Cost of Sales from Administration costs to enable enhanced clarity of the Group's trading results. Within this income statement £692k, £391k and £796k have been transferred to Cost of Sales from Administration Costs for the periods ended 30 June 2008, 30 June 2007 and 31 December 2007 respectively.

The Group identified within the Financial Reports for the period to 31 December 2007 that under IFRS, certain aspects of the accounting for acquisitions of prior period required restatement. Accordingly some of the adjustments reported related to the period ended 30 June 2007 and the income statement and balance sheet have been restated accordingly. The adjustments had no cash impact and no material impact upon the 2007 reported results.

	6 Months ended 30 June 2007 As restated £'000
Increase in finance charges	209
Increase in pre-tax loss	**209**
Increase amounts due to third party in respect of deferred consideration	(209)
Prior period adjustment identified in 31 December 2007 financial statements	(1,092)
Reduction in net assets	**(1,301)**
Retained Earnings	209
Prior period adjustment identified in 31 December 2007 financial statements	1,092
Reduction in equity	**1,301**

5a. **SEGMENTAL INFORMATION BY BUSINESS ACTIVITY FOR 6 MONTHS TO JUNE 2008**

	BioPlastics	RF Applications	Packaging Design	Central Costs	Total
	6 Months to June 2008	6 Months to June 2008	6 Months to June 2008	6 Months to June 2008	6 Months to June 2008
	£'000	£'000	£'000	£'000	£'000
Revenue					
External sales	**6,971**	**390**	**50**	**—**	**7,411**
Depreciation/Amortisation	(327)	(42)	—	—	(369)
Significant Non Cash Items	211	(23)	48	—	236
PROFIT/(LOSS) FROM OPERATIONS	**(169)**	**(119)**	**98**	**(1,449)**	**(1,639)**
Interest Received					265
Finance Charges					(135)
Foreign Exchange Gain					360
LOSS BEFORE TAXATION					**(1,149)**
Taxation					165
LOSS FOR THE PERIOD					**(984)**
CAPITAL EXPENDITURE					
Property, Plant and Equipment	117	—	—	—	**117**
Intangible Assets	4	—	—	—	**4**
ASSETS	22,714	973	100	8,704	**32,491**
LIABILITIES	(10,145)	(201)	(2)	(994)	**(11,342)**

Notes to the interim statements continued

FOR THE PERIOD ENDED 30 JUNE 2008

5b. **SEGMENTAL INFORMATION BY BUSINESS ACTIVITY FOR 6 MONTHS TO JUNE 2007**

	BioPlastics	RF Applications	Packaging Design	Central Costs	Total
	6 Months to June 2007	6 Months to June 2007	6 Months to June 2007	6 Months to June 2007	6 Months to June 2007
	£'000	£'000	£'000	£'000	£'000
Revenue					
External sales	**3,287**	**491**	**90**	**—**	**3,868**
Exceptional items	84	(500)	—	(1,590)	(2,006)
Depreciation/Amortisation	(127)	(84)	(23)	—	(234)
Significant Non Cash Items	(1)	(29)	(10)	151	111
LOSS FROM OPERATIONS	**(703)**	**(1,037)**	**(122)**	**(1,847)**	**(3,709)**
Interest Received					289
Finance Charges					(264)
Foreign Exchange Gain					—
LOSS BEFORE TAXATION					**(3,684)**
Taxation					—
LOSS FOR THE PERIOD					**(3,684)**
CAPITAL EXPENDITURE					
Property, Plant and Equipment	806	16	1	—	**823**
Intangible Assets	7	—	—	—	**7**
ASSETS	23,746	636	150	8,499	**33,031**
LIABILITIES	(9,541)	(438)	(43)	(972)	**(10,994)**

5c. **SEGMENTAL INFORMATION BY BUSINESS ACTIVITY FOR 12 MONTHS TO DECEMBER 2007**

	BioPlastics	RF Applications	Packaging Design	Central Costs	Total
	12 Months to December 2007	12 Months to December 2007	12 Months to December 2007	12 Months to December 2007	12 Months to December 2007
	£'000	£'000	£'000	£'000	£'000
Revenue					
External sales	**6,855**	**1,059**	**150**	**—**	**8,064**
Exceptional items	(438)	(500)	—	(1,589)	(2,527)
Depreciation/Amortisation	(406)	(145)	(3)	—	(554)
Significant Non Cash Items	86	(85)	(86)	191	106
LOSS FROM OPERATIONS	**(919)**	**(835)**	**(213)**	**(3,676)**	**(5,643)**
Interest Received					614
Finance Charges					(458)
Foreign Exchange Gain					469
LOSS BEFORE TAXATION					**(5,018)**
Taxation					(31)
LOSS FOR THE PERIOD					**(5,049)**
CAPITAL EXPENDITURE					
Property, Plant and Equipment	972	20	—	37	**1,029**
Intangible Assets	71	—	—	—	**71**
ASSETS	23,506	1,315	72	8,868	**33,761**
LIABILITIES	(10,650)	(991)	(58)	(752)	**(12,451)**

6. GOODWILL

The increase in Goodwill is due to the appreciation of the Euro during the reporting period. This increase will reverse should the Euro depreciate in future periods

7. INVENTORIES

	As at 30 June 2008	As at 30 June 2007	As at 31 December 2007
	£'000	£'000	£'000
Raw materials and consumables	**866**	680	4,582
Work in progress	**32**	44	180
Finished goods and goods for resale	**3,767**	2,756	1,757
Total	**4,665**	3,480	6,519

8. TRADE AND OTHER RECEIVABLES

	As at 30 June 2008	As at 30 June 2007	As at 31 December 2007
	£'000	£'000	£'000
Trade receivables	**1,766**	1,026	1,044
Other receivables	**1,233**	492	391
Prepayments and accrued income	**294**	413	443
Total	**3,293**	1,931	1,878

9. TRADE AND OTHER PAYABLES

	As at 30 June 2008	As at 30 June 2007	As at 31 December 2007
	£'000	£'000	£'000
Trade payables	**2,182**	1,535	4,041
Other taxation and social security costs	**66**	83	39
Other creditors	**726**	212	170
Accruals and deferred income	**770**	256	515
Total	**3,744**	2,086	4,765

10. PROMISSORY NOTES

Promissory notes are amounts due from members of 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. During the period between 31 December 2007 and 30 June 2008 the appreciation of the Euro resulted in a gain of £448k in the value of the promissory notes.

11. SHARE CAPITAL

	As at 30 June 2008	As at 30 June 2007	As at 31 December 2007
	£'000	£'000	£'000
Authorised			
4,000,000,000 (2007: 4,000,000,000) Ordinary shares of 0.1p each	**4,000**	4,000	4,000
Allotted, issued and fully paid			
3,078,340,917 (2007: 3,011,852,513) Ordinary shares of 0.1p each	**3,078**	3,012	3,012

All ordinary shares carry equal participation in assets, rights to dividends and voting power. On 3 June 2008, 66,488,404 new shares were issued at 0.733p each relating to the previous acquisition of Aquasol Ltd.

12. **NOTES TO CASH FLOW STATEMENT**

	6 Months ended 30 June 2008	6 Months ended 30 June 2007	12 Months ended 31 December 2007
	£'000	£'000	£'000
Loss from operations and exceptional items	**(1,639)**	(3,709)	(5,643)
Adjustment for:-			
Amortisation and impairment of intangible fixed assets	**21**	2,363	2,424
Depreciation of property, plant and equipment	**188**	234	440
Share based payments	**(236)**	(112)	(133)
(Profit)/loss on disposal of property, plant and equipment	**(2)**	(254)	(204)
(Decrease)/increase in provisions	**361**	(250)	(416)
Foreign exchange	**359**	57	469
Taxes Receivable	**165**	—	—
Minority interest share of loss	**141**	(109)	837
Operating cash flows before movement in working capital	**(642)**	(1,780)	(2,226)
Decrease / (increase) in inventories	**1,432**	(1,626)	(4,665)
(Increase) / decrease in receivables	**(1,675)**	(779)	1,279
(Decrease) / increase in payables	**(922)**	647	1,419
Cash utilised by operations	**(1,807)**	(3,538)	(4,193)
Corporation tax received	—	—	403
Interest paid	**(54)**	(30)	(458)
Net cash outflow from operating activities	**(1,861)**	(3,568)	(4,248)

13. **CONTINGENT LIABILITIES**

Novamont S.p.A ("Novamont") has brought proceedings against Biotec Biologische Naturverpackungen GmbH & Co KG, Germany ("Biotec") and SPhere SA, France, and certain Group companies of SPhere 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 on the basis that the claims in the Novamont Patents relied on by Novamont are not infringed by Biotec and/or are invalid. Stanelco and Biotec continue to take professional and technical advice with regard to this litigation and are confident of a successful outcome.

14. **RISKS AND UNCERTAINTIES**

The principal risks and uncertainties affecting the business activities of the Group are detailed in the Directors' Report which can be found on pages 8-9 of the Annual Report and Financial Statements for the period ended 31 December 2007. A copy of the Annual Report and Financial Statements is available on the Company's website at www.stanelcoplc.com

Independent review report for Stanelco Plc

Introduction
We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 which comprises the condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated cash flow statement, condensed consolidated statement of changes in equity and the related notes 1 to 14. We have read the other information contained in the half yearly financial report which comprises only the Chairman's Statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in ISRE (UK and Ireland) 2410, 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. Our review work has been undertaken so that we might state to the company those matters we are required to state to them in a review 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, for our review work, for this report, or for the conclusion we have formed.

Directors' responsibilities
The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in Note 2, the annual financial statements of the group are prepared in accordance with IFRS, as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting,' as adopted by the European Union.

Our responsibility
Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Independent review report for Stanelco Plc continued

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

GRANT THORNTON UK LLP
Southampton
29 August 2008

BioPlastics

RF Applications

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