STANELCO PLC

UNAUDITED INTERIM CONSOLIDATED ACCOUNTS
for the six months ended 30 April 2003

CONTENTS

OFFICERS

Executive Directors:	Ian H Balchin *(Chief Executive)* Barrie C Hozier Mrs Audrey R Shepherd
Non-executive Directors:	Mrs Elizabeth Filkin *(Chairman)* Ian N Davis Christopher H B Mills Howard White
Secretary:	Robert E Duggan
Registered office:	Systems House Brunel Way Segensworth East Fareham Hampshire PO15 5SD
Company registration number:	1873702 (England and Wales)

CHIEF EXECUTIVE'S STATEMENT

FOR THE SIX MONTHS ENDED 30 APRIL 2003

I have previously reported to you that this Company, like many others, has been going through the most dramatic changes in market conditions in its history. International telecommunications and engineering markets remain depressed, although they are now showing some signs of recovery. Our financial results during this period reflect this market. However, we have made significant progress with our Radio Frequency (RF) capsule making technology and waste packaging systems.

Overall, the Company is robust and the development of new applications and routes to market based upon our core technology remains a key and exciting focus for the business.

Results

Turnover has reduced by 58.7 per cent to £889,000 compared to the comparative period last year of £2,151,000. This has resulted in a pre-tax loss of (£96,000) in contrast to the underlying pre-tax profit of £274,000 (£501,000 with an exceptional item) reported at last year's interim results. The current period trading has resulted in a basic loss per share of (0.006p) compared to a reported basic earnings per share of 0.052p for the corresponding period last year.

Reductions made to our cost base in anticipation of the market downturn have significantly mitigated the impact of this downturn on the performance of the Company.

Period end net cash decreased by £214,000 from the previous financial year-end. Trading remained cash generative during the period, bringing in a net £139,000. The overall reduction in cash is due to the continued investment in research and development. During the period £357,000 of costs were capitalised. The substantial proportion of these costs arises from the development of ingestible capsules through InGel Technologies Ltd (InGel). This investment has been funded through the capital injections that resulted from the sale of shares in both InGel and Stanelco plc to R.P. Scherer Corporation for £1,130,000.

The Company has benefited from its applications for tax relief relating to its Research and Development programme.

Dividend

The Directors' current intention is to propose to maintain the final dividend at the current level of 0.01p per share, pending a review of trading conditions at the financial year-end.

InGel Technologies

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

CHIEF EXECUTIVE'S STATEMENT

CONTINUED

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

- Patents have been granted in several territories and are pending in others covering the formation, using RF, of capsules from soluble materials. We believe that this invention, which covers a process, is a platform technology with many applications and is likely to be valuable irrespective of the success of InGel. The Company retains ownership of this patent, which is currently licensed to InGel for its applications. The United States Patent Office has informed us that it has no objections to the grant of this patent in the United States – a major market for the applications.

- InGel has made further patentable new inventions in the course of its development work.

- Work with the pilot scale machine capable of producing large batch sizes for stability and clinical trials has reached an advanced stage. We are currently using it as the basis to select production scale technologies.

- R. P. Scherer Corporation (which in December 2001 acquired 3 per cent. of Stanelco plc and 5 per cent. of InGel with a deferred payment to acquire an additional 5 per cent. of InGel) has also committed a full-time team of people in support of InGel, working as part of a team with our own staff and others. R.P. Scherer has also exercised its option to license the technology for health and nutritional applications, in addition to pharmaceuticals.

- We have installed the first development machine in premises designed for pharmaceutical capsule manufacture.

Our best estimates are that we expect InGel to start generating revenues within the next 12 months. Although further development work is required to prove this technology on a commercial scale – we believe that it offers the prospect of revolutionising the manufacture of water soluble and ingestible soft capsules.

Optical fibre

I am pleased to report, although cautiously, that the Company is now seeing the first signs of some recovery in this market. Since the end of the period we have seen orders for RF furnaces and consumables increasing for the first time in nearly two years. The manufacturers of optical fibre for telecommunications are consolidating, and those that wish to continue for the long term are contemplating relocation to lower cost manufacturing regions and using technology to give a lower unit cost of production. Some territories are considering the manufacture of their entire domestic requirements to avoid importing fibre. All of these trends create opportunities for the Company to supply its latest technology.

We have supplied our first Modified Chemical Vapour Deposition (MCVD) system to Japan for making the specialist quartz pre-form from which optical fibre is drawn. The MCVD technology is used to dope the quartz with rare earth metals in order to modify its optical properties. We expect to supply a second system to Japan during the second half year.

CHIEF EXECUTIVE'S STATEMENT

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Waste packaging

Stanelco's RF sealing technology enables customers to seal hazardous materials in industrial grade plastic bags. Unlike heat sealing and other RF methods, we can seal through liquids, dusts and particulates without burning the plastic to produce a high integrity seal. We continue to anticipate sales from our new waste packaging equipment in excess of £1m during the current year and have received enquiries in excess of £4m.

We have also developed, fabricated and sold the first large scale version of this equipment for sealing drums within industrial grade plastic bags – we have in excess of £500k of enquiries for this version of the equipment.

During the second half year we expect to make our first overseas sales and to begin benefiting from maintenance and service income as warranties expire.

InGel Industrial

Independently of InGel, Stanelco has developed an RF process for making capsules from Polyvinyl Alcohol based plastics. These plastics are environmentally friendly and biodegrade safely. The main applications for these capsules, currently, are laundry detergents and agrochemicals. We have produced a range of concept capsules to demonstrate the versatility of our RF process. These concept capsules have been produced in a range of sizes and shapes, containing both liquids and powders and capsules within capsules. Our process (which is also covered by the same base patent licensed to InGel) appears to offer many potential advantages over the heat-sealing method of forming these capsules, one notable feature is that our capsules do not need to contain an air bubble – unlike those currently available. As with InGel, we are uncertain at present as to the full commercial potential of this technology. We are actively undertaking trials with a number of major detergent manufacturers.

R&D Work

During the first half of the current financial year we invested the equivalent of more than 40 per cent. of our turnover into research and development activities. When it makes sense, we seek to protect our intellectual property through patenting and we work closely with intellectual property specialists in this regard. We continue to anticipate significant R&D expenditure as we develop new products for the future.

Prospects

At the date of this report, the order book stands at £529,000.

We expect to see significant new orders from our existing businesses. The optical fibre business shows signs of improving, having had a difficult first half year and the waste packaging business is growing . Historically, the underlying trend has been to have a relatively slow first half year followed by a strong second half year. We anticipate a return to this trend with improved performance in the second half of the year.

Ian Balchin
Chief Executive
3 June 2003

CONSOLIDATED SUMMARISED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30 APRIL 2003

	Unaudited Six months ended 30 April 2003 £'000	Unaudited Six months ended 30 April 2002 £'000	Audited Year ended 31 October 2002 £'000
TURNOVER	**889**	2,151	3,570
Operating results before exceptional items	**(111)**	253	411
Exceptional item	**-**	227	155
OPERATING (LOSS)/PROFIT	**(111)**	480	566
Net interest receivable	**15**	21	48
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	**(96)**	501	614
Taxation	**55**	(155)	(177)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	**(41)**	346	437
Minority interest	**-**	7	
(LOSS)/PROFIT FOR THE PERIOD	**(41)**	353	437
Dividends	**-**	-	(69)
RETAINED (LOSS)/PROFIT FOR THE PERIOD	**(41)**	353	368
EARNINGS PER SHARE			
Basic (loss) / earnings per share (pence)	**(0.006)**	0.052	0.064
Fully diluted (loss)/earnings per share (pence)	**(0.006)**	0.051	0.063
DIVIDENDS PER SHARE (pence)	**-**	-	0.01

NOTES TO THE CONSOLIDATED SUMMARISED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30 APRIL 2003

Notes

1. *Earnings per share*
   The basic (loss)/earnings per share is based on an attributable (loss)/profit after tax of (£41,000) (*2002: £353,000*) and on the basic *(2002: weighted average)* ordinary shares in issue during the period of 686,829,750 *(2002: 682,845,377)*. The fully diluted earnings per share are based on an attributable (loss)/profit after tax of (£41,000) *(2002: £353,000)* and on the diluted share holding of 687,556,312 *(2002: 688,993,320)*.

2. Research and development expenditure of £357,000 *(2002: £295,000)* has been incurred in the period. Of this expenditure £357,000 *(2002: £295,000*) has been capitalised as an intangible asset to be amortised against future revenues. Expenditure of this type is only capitalised where the Board is of the opinion that future revenues will exceed the costs incurred over the expected product life in accordance with Statement of Standard Accounting Practice Number 13.

   The Company received £1,130,000 in December 2001 from the issue of new shares to R.P.Scherer Corporation, which is being utilised to fund the R&D expenditure within InGel Technologies.

3. The figures for the year ended 31 October 2002 are an abridged statement of the full Group Accounts for that year which have been delivered to the Registrar of Companies and on which the Auditors made an unqualified report and which did not contain a statement under Section 237 of the Companies Act 1985.

   The principal accounting policies of the Group have remained unchanged from those set out in the Group's 2002 Annual Report and Financial Statements. The financial information set out in this Interim Report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985.

   The interim financial information in this report has been neither audited, or reviewed by the Company's auditors.

4. Copies of this statement are being sent to all shareholders and will be available to the public at the Company's registered office.

CONSOLIDATED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE SIX MONTHS ENDED 30 APRIL 2003

	Unaudited Six months ended 30 April 2003 £'000	Unaudited Six months ended 30 April 2002 £'000	Audited Year ended 31 October 2002 £'000
(Loss)/profit for the financial period	**(41)**	353	437
Dividends	**-**	-	(69)
	(41)	353	368
Issue of 20,604,900 ordinary 0.1p shares in Stanelco Plc	**-**	567	567
Issue of 500 ordinary 1p shares in InGel Technologies Limited	**-**	535	535
Net addition to shareholders' funds	**(41)**	1,455	1,470
Opening shareholders' funds	**2,651**	1,181	1,181
Closing shareholders' funds	**2,610**	2,636	2,651

The issue of shares in Stanelco Plc and InGel Technologies Limited were made at a premium to R.P. Scherer Corporation.

CONSOLIDATED BALANCE SHEET

AT 30 APRIL 2003

		Unaudited At 30 April 2003		Audited At 31 October 2002
	£'000	**£'000**	£'000	£'000
FIXED ASSETS				
Intangible assets	**1,163**		831	
Tangible assets	**273**		307	
		1,436		1,138
CURRENT ASSETS				
Stocks	**654**		637	
Debtors	**351**		775	
Cash at bank and in hand	**937**		1,151	
	1,942		2,563	
CREDITORS: amounts falling due within one year	**(593)**		(812)	
NET CURRENT ASSETS		**1,349**		1,751
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,785**		2,889
PROVISIONS FOR LIABILITIES AND CHARGES		**(147)**		(210)
		2,638		2,679
CAPITAL AND RESERVES				
Called up share capital		**687**		687
Share premium account		**1,081**		1,081
Profit and loss account		**842**		883
SHAREHOLDERS' FUNDS		**2,610**		2,651
Minority interest		**28**		28
		2,638		2,679

The Interim Accounts were approved by the Board on 3 June 2003

Signed on behalf of the Board of Directors

Ian H Balchin *(Chief Executive)*

Barrie C Hozier *(Finance Director)*

CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 APRIL 2002

	Note	**Unaudited Six months ended 30 April 2003 £'000**	Unaudited Six months ended 30 April 2002 £'000	Audited Year ended 31 October 2002 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	**1**	**139**	52	444
RETURNS ON INVESTMENT AND SERVICING OF FINANCE				
Interest received		**15**	24	49
Interest paid		**-**	-	(1)
Dividend paid		**(2)**	-	(64)
Finance lease interest paid		**-**	(1)	
NET CASH INFLOW/ (OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		**13**	23	(16)
TAXATION				
Corporation tax (paid)/refunded		**(2)**	6	(252)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT				
Investment in intangible fixed assets		**(357)**	(295)	(844)
Purchase of tangible fixed assets		**(13)**	(87)	(86)
Sale of tangible fixed assets		**6**	1	1
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		**(364)**	(381)	(929)
FINANCING				
Issue of ordinary share capital		**-**	1,130	1,130
Capital element of finance lease rentals		**-**	(2)	(3)
NET CASH INFLOW FROM FINANCING		**-**	1,128	1,127
(DECREASE)/INCREASE IN CASH	**2**	**(214)**	828	374

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 APRIL 2002

1. RECONCILIATION OF OPERATING PROFIT TO THE NET CASH INFLOW FROM OPERATING ACTIVITIES

	Unaudited Six months ended 30 April 2003 £'000	Unaudited Six months ended 30 April 2002 £'000	Audited Year ended 31 October 2002 £'000
Operating profit for the period	**(111)**	480	566
Amortisation of intangible fixed assets	**25**	-	13
Depreciation of tangible fixed assets	**43**	44	99
(Profit)/loss on disposal of tangible fixed assets	**(2)**	(1)	1
(Increase)/decrease in stocks	**(17)**	377	179
Decrease/(increase) in debtors	**424**	(404)	23
(Decrease) in creditors due within one year	**(215)**	(439)	(427)
(Decrease) in provision for liabilities and charges	**(8)**	(5)	(10)
Net cash inflow from operating activities	**139**	52	444

2. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Unaudited Six months ended 30 April 2003 £'000	Unaudited Six months ended 30 April 2002 £'000	Audited Year ended 31 October 2002 £'000
(Decrease)/increase in cash in the period	**(214)**	828	374
Cash outflow from financing	**-**	2	3
Change in net debt resulting from cash flows	**(214)**	830	377
Net funds at beginning of period	**1,151**	774	774
Net funds at end of period	**937**	1,604	1,151

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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3. ANALYSIS OF CHANGES IN NET FUNDS

Unaudited	At 1 November 2002 £'000	Cash flow £'000	**At 30 April 2003 £'000**
Cash in hand and at bank	1,151	(214)	**937**

Unaudited	At 1 November 2001 £'000	Cash flow £'000	**At 30 April 2002 £'000**
Cash in hand and at bank	777	828	**1,605**
Finance leases	(3)	2	**(1)**
	774	830	**1,604**

Audited	At 1 November 2001 £'000	Cash flow £'000	**At 31 October 2002 £'000**
Cash in hand and at bank	777	374	**1,151**
Finance leases	(3)	3	**-**
	774	377	**1,151**