STANELCO PLC

UNAUDITED INTERIM CONSOLIDATED ACCOUNTS

for the six months ended 30 April 2005

Contents

Officers

Executive Directors	Ian H Balchin	*(Chief Executive)*
	Robert P Boardman	*(Finance Director)*
	Robert E Duggan	*(Director and Company Secretary)*
	Terry M Robins	*(Chief Operating Officer)*
	Graham J Whitchurch	*(Director)*
	Howard White	*(Group Managing Director)*
Non-executive Directors	Elizabeth J Filkin	*(Senior Independent Director)*
	Philip A Lovegrove OBE	*(Chairman)*
Secretary	Robert E Duggan	
Registered office	Starpol Technology Centre North Road Marchwood Southampton Hampshire SO40 4BL	
Company registration No	1873702 (England and Wales)	

Chief Executive's statement

It has been an exciting six months for Stanelco PLC. We have made considerable progress in the adoption of our GREENSEAL™ technology, in particular with our increasingly strong relationship with ASDA in the UK. In the last few months these have progressed to the point of two ASDA suppliers placing orders for a number of their machines to be retrofitted. We expect the momentum to continue to accelerate over the year ahead as we look to our goal of establishing GREENSEAL™ as an industry standard in the packaging sector.

However Stanelco is more than just one product and over the period we have been further using our IP in radio frequency technology (RF), environmentally sound material sciences and design to create a revolutionary range of packaging technologies.

Our philosophy is simple

New products and processes must offer solutions and applications that give higher added value, are greener, more environmentally sustainable than those they replace and have protectable intellectual property rights.

Stanelco will develop the products and processes to a demonstration stage and then work with partners in order to reach the markets; and under these circumstances Stanelco will usually seek to license its technology in order to realise revenue.

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

The products offering the prospect of near term revenue generation are being given priority over the Company's resources.

Acquisition of Biotec Group

On 6 June 2005 the Company announced that it had entered into an agreement, subject to shareholder approval, for the acquisition of the entire issued share capital of Biotec Holding GmbH and subsidiaries (the "Biotec Group" or "Biotec") from EKI (E. Khashoggi Industries LLC) for a total of US$25m payable over a 24 month period.

Biotec is one of the world's leading exponents of starch technology and has a considerable intellectual property portfolio, including many patents, extending to uses in pharmaceutical and edible applications. It also has ranges of products that are ready for commercialisation within the food and beverage industries. One early example of this, which we have now patented is a

Chief Executive's statement continued

biodegradable cork for wine bottles and discussions are currently underway with new and existing partners to realise revenue from this development.

Natural starch is one of the lowest cost biodegradable, compostable, renewable resource materials and Biotec has a unique portfolio of products including Thermoplastic Starch ("TPS"). This portfolio enables the use of environmentally responsible material in place of petroleum based plastics, such as polypropylene. Stanelco will be aiming to commercialise some of this portfolio during the remainder of 2005 with the pilot launch of a new thermoplastic material provisionally marketed as Starpol 2000™. Starpol 2000™ is certified biocompostable. The material can be used to produce food trays and other products and can be processed on most conventional machines and should not require major capital investment by convertors.

The initial focus will be on the North American market, where polypropylene is widely used for food trays and where there is increasing demand for biodegradable packaging. Starpol 2000™ additionally provides a stronger gas barrier for modified atmosphere packaging (MAP) which helps to lengthen shelf life. Sample products have been manufactured and discussions have commenced with major retailers.

Furthermore, with the rise in oil prices, the cost of petroleum based packaging materials is inevitably rising faster than our alternatives – making them increasingly attractive. In particular APET/PE sheet for making food trays is currently in the order of £1.70 per kilo and the target price of the Biotec material will be in the region of £1.80 per kilo. This acquisition also creates a further barrier to entry for potential competition in the GREENSEAL™ project. We will be able to provide a turnkey, ecologically, environmentally responsible solution to MAP food-packaging requirements, as Stanelco's RF Sealing and Welding technology can be used to process starch polymers without the degradation or cross-linking caused by other methods such as thermal processing which can render the material unsuitable for food and pharmaceutical applications.

Biotec will also be a supplier of film to the InGel capsule project. Biotec's proprietary pharmaceutical grade film is suited for applications where it replaces conventional polymers such as gelatine. Depending upon the specification, the film has a cost base of between US$5 to US$8 per kilogram, offering customers significant cost savings when compared to gelatine and other materials, which it may replace. In addition, being a mono material, waste generated during manufacture can often be immediately re-used.

Chief Executive's statement continued

GREENSEAL™

Following successful trials, on 24 March 2005, Stanelco announced that it has signed a binding contract with ASDA for a 12-month exclusive agreement for the application of the Group's GREENSEAL™ tray lidding and thermoforming RF technology in the UK and Ireland. ASDA anticipate that several hundred machines will be adapted in the next 12 months to utilise the technology due to the significant benefits it delivers.

The main benefits of Stanelco's GREENSEAL™ technology are:

- an up to 20 per cent. lower cost of packaging material;
- a higher integrity seal substantially reducing the possibility of packs leaking;
- a removal of laminated plastics in favour of mono plastics, which can be easily recycled providing significant environmental benefits; and
- a saving of up to 70 per cent. on power usage in the traylidding/thermoforming machines.

Since then, the first two full commercial trials have been run successfully and conditional orders received from Youngs Bluecrest and Hitchen Foods plc for up to five machines in the first instance. Further trials are in progress.

In order to roll GREENSEAL™ Technology out, in the USA and elsewhere, Stanelco has entered into strategic alliances with Advanced Energy Corporation and Premier Technologies. I am also delighted to report that Howard White has been appointed as Group Managing Director of the Company and President of Stanelco's US operations to more accurately reflect the role that Howard has been fulfilling for Stanelco. Howard has been instrumental in directing the GREENSEAL™ project. Two subsidiaries have been incorporated in the USA to enable commercialisation in the North American continent.

Starpol™

Starpol™ is a range of materials that utilises a patent applied for technology that permits the combining of starch and PVA (polyvinyl alcohol) in any combination into a homogenous material. 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™.

Chief Executive's statement continued

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 and foodstuffs. 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. Stanelco has appointed its first two distributors of Frog Pack™. The product has been well received by the packaging industry in the UK and orders as well as revenues have begun to flow. It is also available for purchase via Ebay. We are currently pursuing routes into other territories, in particular the USA.

We anticipate extending the range of protective packaging based upon SAAP™ technology with several innovative packaging formats being developed, tested and protected, such as a new format for transporting cut flowers.

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 now available from our pilot production line and we expect a gradual take up.

Soluble labels

A new range of labels, tapes and films coated with a 100 per cent. water-soluble adhesive. Work is progressing with initial applications and we expect this to move to volume production during 2005.

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.

Chief Executive's statement continued

Traditional RF business

The market for new RF furnaces for the manufacture of optical fibre is showing little sign of recovering, with customers keen to minimise capital expenditure. Sales of consumable items for furnaces have begun to pick up.

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 they are designed to replace and give a high integrity seal. Applications include the sealing of waste bags for transit.

We have now outsourced all manufacture of RF furnaces and mobile welders whilst retaining control of the intellectual property.

InGel Technologies and capsules

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

Entitlement to certain patents relating to this technology are the subject of litigation by our subsidiary Stanelco RF Technologies Limited against BioProgress Technology Limited.

Further evidence has come to light since the original hearing and having taken legal advice, Stanelco is confident that it shall be able to continue to pursue this area of technology. Both parties have been granted leave to appeal the original decision and have filed their appeals.

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

Two other capsule projects are unaffected by the outcome of the litigation and are progressing independently of InGel.

We are working with Carclo plc to develop hard shell water soluble capsules for drug delivery. We are also concentrating on increasing the starch content of the capsules to allow us both to reduce cost and, more importantly, to facilitate the process of regulatory approval. This technology is in the process of being presented to a number of drug development companies. We anticipate that the involvement of Biotec in this venture will significantly reduce development timescales and increase the likelihood of success.

Chief Executive's statement continued

We have also been working with Reckitt Benckiser to help develop their Electrasol® 2 in 1 Gelpacs®[a] automatic dishwasher detergent capsules. These are now available and selling well in North America. Stanelco receives a royalty for each capsule sold.

Financial review

The Group has made a loss of £0.9m for the six month period ended 30 April 2005. The Group has made investments in research and development of £0.7m and increased its levels of stock by £0.8m from £0.6 m to £1.4m which primarily relates to equipment involved in the trials of GREENSEAL™. The Group raised £4.8m (net of expenses) by way of an equity placing in February 2005 which has mainly been utilised as working capital. Shareholders' funds have increased from £6.1m to £10.4m in the period. The Group continues to invest in research and development and is increasing its cost base in a controlled manner to facilitate the roll out phase of revenue generating products and technologies which has now commenced. The Group has recently raised a further £9m (net of expenses) which will be used primarily to fund the conditional purchase of Biotec.

Outlook

As I have described above, we are making good progress on a number of projects which have the capability to change fundamentally the dynamics of their target markets and which will build substantial value for our shareholders. This will not happen overnight, but we expect momentum to continue to build in coming months both in relation to GREENSEAL™ and to the exciting range of products within the Biotec portfolio.

Ian Balchin

Chief Executive

29 June 2005

(a) Electrasol® 2 in 1 Gelpacs® are trademarks of Reckitt Benckiser

Consolidated summarised profit and loss account

FOR THE SIX MONTHS ENDED 30 APRIL 2005

	Unaudited Six months ended 30 April 2005 £'000	Unaudited Six months ended 30 April 2004 £'000	Audited Year ended 31 October 2004 £'000
Turnover	**629**	320	1,332
Operating results before exceptional items	**(992)**	(271)	(1,188)
Exceptional item	—	(226)	(1,669)
Operating (loss)	**(992)**	(497)	(2,857)
Net interest receivable	**33**	7	11
(Loss) on ordinary activities before taxation	**(959)**	(490)	(2,846)
Taxation	**23**	—	59
(Loss) on ordinary activities after taxation	**(936)**	(490)	(2,787)
Minority interest	**4**	—	4
(Loss) for the period	**(932)**	(490)	(2,783)
Dividends	—	(7)	(7)
Retained (loss) for the period	**(932)**	(497)	(2,790)
Earnings per share			
Basic and diluted loss per share – pence	**(0.109)**	(0.067)	(0.370)

Notes to the consolidated summarised profit and loss account

FOR THE SIX MONTHS ENDED 30 APRIL 2005

1. EARNINGS PER SHARE

The basic loss per share is based on a loss after tax of £936,000 (*2004: £490,000*) and on the basic weighted average ordinary shares in issue during the period of 857,040,675 *(2004: 733,889,937)*.

2. Research and development expenditure of £717,000 *(2004: £831,000)* has been incurred in the period. Of this expenditure £717,000 *(2004: £831,000)* 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.

3. PLACING

On 9 February 2005 Stanelco placed 38,000,000 ordinary equity shares at a price of 12.825p per share to raise approximately £4.8m (£4.7m net of expenses) which has mainly been utilised as working capital. Shareholders' funds have increased from £6.1m to £10.4m in the period.

4. POST BALANCE SHEET

Acquisition

On 6 June 2005 the Company announced that it had entered into an agreement, subject to shareholder approval, for the acquisition of the entire issued share capital of Biotec Holding GmbH and subsidiaries (the "Biotec Group" or "Biotec") from EKI (E. Khashoggi Industries LLC) for a total of US$25m payable over a 24 month period. Of the total consideration, US$1.23m has already been paid in cash to EKI as a non-refundable deposit. A further US$11.27m is due to be paid on completion of the acquisition, which will be satisfied in cash. A further US$6.25m in cash is due to be paid in 12 months and a final payment of US$6.25m in cash is due 12 months thereafter. The deferred elements are not subject to performance criteria.

Notes to the consolidated summarised profit and loss account continued

FOR THE SIX MONTHS ENDED 30 APRIL 2005

4. **POST BALANCE SHEET** continued

Placing

On 8 June Stanelco announced that it had placed 44,000,000 ordinary shares at a price of 21.15p per share to raise approximately £9.3m (approximately £9.0m net of expenses). The proceeds of this placing will be used primarily to fund the acquisition, which is conditional on shareholder approval.

5. The figures for the year ended 31 October 2004 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 2004 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.

6. 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 2005

	Unaudited Six months ended 30 April 2005 £'000	Unaudited Six months ended 30 April 2004 £'000	Audited Year ended 31 October 2004 £'000
(Loss) for the financial period	**(936)**	(490)	(2,787)
Minority interest	**4**	—	4
Dividends	**—**	(7)	(7)
	(932)	(497)	(2,790)
New share capital subscribed	**5,022**	1,568	3,742
Shares to be issued	**—**	—	2,500
New share capital subscribed in subsidiary undertaking	**205**	456	—
Less minority interest	**(4)**	—	—
Net addition to shareholders' funds	**4,291**	1,527	3,452
Opening shareholders' funds	**6,099**	2,647	2,647
Closing shareholders' funds	**10,390**	4,174	6,099

Consolidated balance sheet

AT 30 APRIL 2005

	Unaudited At 30 April 2005 £'000	£'000	Audited At 31 October 2004 £'000	£'000
Fixed assets				
Intangible assets	**6,031**		5,567	
Tangible assets	**992**		918	
		7,023		6,485
Current assets				
Stocks	**1,435**		610	
Debtors	**676**		651	
Cash at bank and in hand	**3,034**		920	
	5,145		2,181	
Creditors: amounts falling due within one year	**(908)**		(1,292)	
Net current assets		**4,237**		889
Total assets less current liabilities		**11,260**		7,374
Creditors: amounts falling due after more than one year		**(139)**		(159)
Provisions for liabilities and charges		**(696)**		(1,093)
		10,425		6,122
Capital and reserves				
Called up share capital		**882**		832
Share premium account		**10,371**		5,209
Shares to be issued		**2,500**		2,500
Profit and loss account		**(3,363)**		(2,442)
Shareholders' funds		**10,390**		6,099
Minority interest		**35**		23
		10,425		6,122

The Interim Accounts were approved by the Board on 29 June 2005

Signed on behalf of the Board of Directors

Ian H Balchin *(Chief Executive)*

Robert P Boardman *(Finance Director)*

Consolidated cash flow statement

FOR THE SIX MONTHS ENDED 30 APRIL 2005

	Note	**Unaudited Six months ended 30 April 2005 £'000**	Unaudited Six months ended 30 April 2004 £'000	Audited Year ended 31 October 2004 £'000
Net cash (outflow) from operating activities	1	**(2,231)**	(282)	(731)
Returns on investment and servicing of finance				
Interest received		**18**	8	14
Interest paid		**(3)**	(1)	(3)
Net cash inflow from returns on investments and servicing of finance		**15**	7	11
Taxation				
Corporation tax (paid)		**(11)**	—	—
Capital expenditure and financial investment				
Investment in intangible fixed assets		**(717)**	(831)	(1,466)
Purchase of tangible fixed assets		**(140)**	(12)	(280)
Sale of tangible fixed assets		**10**	12	79
Net cash outflow from capital expenditure and financial investment		**(847)**	(831)	(1,667)
Acquisitions and disposals				
Cash at bank acquired with subsidiary		—	—	59
Equity dividends paid				
Dividend paid		**(1)**	(3)	(79)
Financing				
Issue of ordinary share capital		**5,212**	1,702	2,919
Capital element of finance lease payments		**(9)**	—	(3)
New bank loan		—	—	150
Repayment of loan capital		**(14)**	—	(3)
Net cash inflow from financing		**5,189**	1,702	3,063
Increase in cash	2	**2,114**	593	656

Notes to the consolidated cash flow statement

FOR THE SIX MONTHS ENDED 30 APRIL 2005

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

	Unaudited Six months ended 30 April 2005 £'000	Unaudited Six months ended 30 April 2004 £'000	Audited Year ended 31 October 2004 £'000
Operating (loss) for the period	**(992)**	(497)	(2,857)
Amortisation and impairment of intangible fixed assets	**187**	33	348
Depreciation of tangible fixed assets	**71**	67	171
Amortisation of goodwill	**72**	—	60
Loss on disposal of tangible fixed assets	—	10	68
(Increase) in stocks	**(825)**	(52)	(61)
(Increase)/decrease in debtors	**(37)**	250	(98)
(Decrease)/increase in creditors due within one year	**(310)**	(93)	563
(Decrease)/increase in provision for liabilities and charges	**(397)**	—	1075
Net cash (outflow) from operating activities	**(2,231)**	(282)	(731)

Notes to the consolidated cash flow statement continued

FOR THE SIX MONTHS ENDED 30 APRIL 2005

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

	Unaudited Six months ended 30 April 2005 £'000	Unaudited Six months ended 30 April 2004 £'000	Audited Year ended 31 October 2004 £'000
Increase in cash in the period	**2,114**	593	656
Cash outflow/(inflow) from decrease/ (increase) in debt lease financing	**23**	—	(144)
New finance leases	—	—	(54)
Change in net debt resulting from cash flows	**2,137**	593	458
Net funds at beginning of period	**722**	264	264
Net funds at end of period	**2,859**	857	722

Notes to the consolidated cash flow statement continued

FOR THE SIX MONTHS ENDED 30 APRIL 2005

3. ANALYSIS OF CHANGES IN NET FUNDS

Unaudited	At 1 November 2004 £'000	Cash flow £'000	**At 30 April 2005 £'000**
Cash at bank and in hand	920	2,114	**3,034**
		2,114	
Bank loan	(147)	14	**(133)**
Finance leases	(51)	9	**(42)**
	722	2,137	**2,859**

Unaudited	At 1 November 2003 £'000	Cash flow £'000	**At 30 April 2004 £'000**
Cash at bank and in hand	264	593	**857**

Audited	At 1 November 2003 £'000	Cash flow £'000	Other non cash changes £'000	**At 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**

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