

STANELCO PLC

UNAUDITED INTERIM CONSOLIDATED ACCOUNTS
for the six months ended 30 April 2004

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OFFICERS***Executive Directors***

Ian H Balchin (*Chief Executive*)

Robert E Duggan

Barrie C Hozier (*Finance Director*)

Graham J Whitchurch

Howard White (*Deputy Chief Executive*)

Non-Executive Directors

Ms Elizabeth J Filkin (*Senior Independent Director*)

Philip A Lovegrove OBE (*Chairman*)

Secretary

Robert E Duggan

Registered Office

Systems House

Brunel Way

Segensworth East

Fareham

Hampshire PO15 5SD

Company Registration No

1873702 (England and Wales)

CHIEF EXECUTIVE'S STATEMENT

FOR THE SIX MONTHS ENDED 30 APRIL 2004

This period saw Stanelco Plc, the RF (radio frequency) applications group, continue to successfully progress its strategic diversification away from its traditional business of high technology furnaces for optical fibre manufacture, into the exciting area of RF technology applications. The opportunities for the Group in this area are great. The Group has already demonstrated the commercial-scale application of several of its new technologies and is poised to make a commercial breakthrough. The commercialisation of new applications and routes to market based upon our core technology remains the key and exciting focus for the business.

Much of the hard work undertaken in this period has seen us reap rewards in announcements made since the end of the interim period. In particular the announcement to acquire Aquasol Limited (Aquasol) was a great step forward for the Group. Already we are seeing the benefit from this in helping us open doors to new and exciting applications. We stand at the very front of the line in this revolutionary area of using RF sealing technology on polymer films to provide genuine products for use in the marketplace, often improving quality and reducing costs along the way. In addition the technology and process provides an environmentally sound solution, being energy efficient and replacing oil based products with sustainable easily replenished biodegradable materials which is becoming increasingly more important in today's society.

As a result, the Group continues to invest heavily in the development, patenting and commercialisation of its RF technology for applications including ingestible capsules, food sachets, detergent capsules and packaging materials. The Group is currently negotiating with 15 major corporations including machinery manufacturers, packaging suppliers and end users regarding its new technologies. The Group has lodged four patent applications in the period and following the acquisition of Aquasol, we are working on a number of inventive technologies and expect to file several patent applications with good commercial prospects in the coming months.

The majority of anticipated revenues are unaffected by the court case with BioProgress Technologies Limited.

The Group is incurring significant costs in the preparation of its case against BioProgress which concerns the determination of patent ownership. Stanelco considers that the BioProgress claims are entirely without merit and is strongly resisting them. Stanelco will take all actions necessary to protect its ownership of all patents and thereby safeguard shareholder value. This case is due to be heard in the High Court commencing on 8 July this year with a determination expected in September. During this transition phase, whilst these negotiations and the court action remain ongoing and we continue to invest in development, the Group continued to be loss making for the half year to 30 April 2004. However the £1.5m injection of funds at the Rights Issue means that the Group has cash reserves and no net borrowings.

Stanelco continues to find trading difficult in its traditional business of high technology furnaces for optical fibre manufacture due to the telecommunications market downturn. Steps are being taken to further reduce costs in this area.

Results

Turnover has reduced by 64 per cent. to £320,000 compared to £889,000 for the same period last year. This has resulted in a pre-tax loss before exceptional items of £265,000 compared to the underlying pre-tax loss of £96,000 last year. There is an exceptional loss of £226,000 in the year relating to the costs of the BioProgress legal action. We are advised that should we be successful, a significant proportion will be recoverable. The current period trading has resulted in a basic loss per share of 0.067p compared to a reported basic loss per share of 0.006p for the corresponding period last year.

We continue to monitor our cost base and we are focusing the majority of our resources on developing and commercialising new applications.

At the half-year, net cash increased by £593,000 from that reported at the end of our previous financial year. The Rights Issue in January 2004 combined with the exercise of some share options contributed £1,702,000 to the cash reserves, operational activities resulted in an outflow of £282,000 of cash but a significant proportion of this relates to the previously mentioned legal action. The Group invested £831,000 of funds in an intensive period of research and development. During the period £831,000 of costs were capitalised. The substantial proportion of these costs arises from the development of ingestible capsules through InGel Technologies Ltd (InGel), film development projects through Adept Polymers Ltd and developing a commercial detergent capsule process (in conjunction with Aquasol which was subsequently acquired in June 2004).

CHIEF EXECUTIVE'S STATEMENT

CONTINUED

Dividend

The Directors' current intention is to consider the final dividend for the current financial year pending a review of trading conditions at the financial year-end.

Acquisition of Aquasol Limited

At the beginning of the second half of the current financial year the Group acquired 100 per cent. of the issued share capital of Aquasol for a maximum consideration of £3.1 million, the majority of which is subject to the achievement of performance criteria related to the financial contribution made to the Group.

Aquasol is the world leader in water-soluble packaging innovation, products and processes. The intellectual property based company has over 18 years experience in water-soluble packaging technology and its team has been named inventors in 44 international patent applications. Aquasol are the creators of Unilever's Persil capsule, Reckitt Benckiser's gelcaps including Electrasol, Woolite and Calgonit brands and Schering-Plough Animal Health's Coopers Ectoforce Sheep Dip. Aquasol has dedicated development facilities near Chelmsford, Essex. Aquasol currently has a turnover of around £400k of which a significant and growing portion is in the form of royalties. Royalties and profit sharing that would have been due to Aquasol under the collaborative agreement between Stanelco and Aquasol, announced in November, will now remain within the Group. Aquasol's last audited accounts at 31 August 2003 showed a turnover of £476k, net assets of £220k and was at breakeven at the pre-tax profit level.

The Group has successfully converted the first commercial-scale thermoforming machine using its RF sealing technology. This equipment is now being demonstrated to potential customers using polymer films from Stanelco and other suppliers to make products filled with fluids or powders. The RF sealing technology offers customers the prospect of significantly improving product quality and reducing product cost. This technology also enables the production of a new range of edible sachet products.

At the time of the acquisition I said that we believed that our combined technologies and customer relationships will offer an exciting opportunity for customers to become more eco-friendly whilst at the same time significantly improving operating margins. I am pleased to inform you that two new and exciting classes of products have been added to the Group's portfolio as a result of the collaborative efforts of Aquasol with the other parts of the Group and third parties.

The first of these is water-soluble, biodegradable packaging material containing air bubbles to replace bubble wrap made from conventional plastics. The film material that we can supply and process has been assessed to be close in cost to conventional plastics, it is less abrasive and holds air in the bubbles for longer. The material can be re-used or discarded and composted; consumers could even dispose of it in dishwashers or washing machines.

The second is a self-adhesive water-soluble film material that has a 100 per cent. water-soluble adhesive. This opens up markets for protective film, tapes and labels.

Aquasol remains an intellectual property based company and a leader in the field of developing water-soluble packaging and delivery systems. Aquasol's technology and future direction have a strong strategic fit with those of Stanelco.

InGel Technologies

We are pleased to report significant progress with the InGel Technologies Limited venture. Stanelco has successfully demonstrated the use of RF technology to rapidly manufacture soft, one-piece capsules for oral and topical (applied to skin) applications using water-soluble materials. With the success of this demonstration, the Company is now designing and building a pilot commercial scale machine for manufacturing capsules to nutritional and pharmaceutical standards.

This is a true breakthrough in the commercial processing of water-soluble and edible materials which I believe is leading to a revolutionary new generation of commercial RF processing equipment. We have achieved a major milestone for all parties involved. Work is now focusing on further optimising all aspects of the processing economics prior to the anticipated commercial launch.

InGel Technologies is a co-venture between Stanelco Plc and Cardinal Health, the leading provider of products and services for the health care industry. Cardinal Health is ranked 17th on the current Fortune 500 list.

CHIEF EXECUTIVE'S STATEMENT

CONTINUED

Optical fibre

This traditional business is becoming less of a focus for the Group's future activities due to its cyclical nature. The Group is in the process of supplying a significant system to Japan, but is not anticipating a market recovery during the next 12 months.

Waste packaging

Stanelco's RF sealing technology enables customers to seal hazardous materials in industrial grade plastic bags. Unlike heat sealing and other traditional RF methods, we can seal through liquids, dusts and particulates without burning the plastic to produce a high integrity seal. We continue to anticipate sporadic sales of batches of waste packaging equipment. The Group has increased prices in order to make this business sufficiently attractive to it.

We have now made our first overseas' sale of this equipment.

Detergent capsules

We are currently undertaking trials on commercial scale equipment for a range of laundry and dishwasher applications. We are anticipating that this work will result in equipment sales, royalties and the sale of water-soluble films.

R&D work

During the first half of the current financial year we invested the equivalent of approximately 260 per cent. of our turnover into research and development activities, the funding of which has been supported by the January 2004 Rights Issue. 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 £432,000.

Based upon the current projects that are under negotiation, we expect to see an increasing level of sales for machinery and royalties based upon cost savings and the added value our technology brings to our new applications. We are not anticipating a growth in our traditional business of optical fibre furnaces and we are expecting sales of waste packaging systems to be sporadic, although we have become the sole supplier of such systems to the largest UK based end user. Any one of several significant pending negotiations could significantly transform the financial performance of the Group during the second half of the financial year.

Ian Balchin
Chief Executive

28 June 2004

**CONSOLIDATED SUMMARISED
PROFIT AND LOSS ACCOUNT**

FOR THE SIX MONTHS ENDED 30 APRIL 2004

	Unaudited Six months ended 30 April 2004 £'000	Unaudited Six months ended 30 April 2003 £'000	Audited Year ended 31 October 2003 £'000
TURNOVER	320	889	1,851
Operating results before exceptional items	<u>(271)</u>	<u>(111)</u>	<u>(517)</u>
Exceptional item	<u>(226)</u>	<u>—</u>	<u>(130)</u>
OPERATING (LOSS)/PROFIT	(497)	(111)	(647)
Net interest receivable	<u>7</u>	<u>15</u>	<u>24</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	(490)	(96)	(623)
Taxation	<u>—</u>	<u>55</u>	<u>156</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	(490)	(41)	(467)
Minority interest	<u>—</u>	<u>—</u>	<u>2</u>
(LOSS)/PROFIT FOR THE PERIOD	(490)	(41)	(465)
Dividends	<u>(7)</u>	<u>—</u>	<u>(70)</u>
RETAINED (LOSS)/PROFIT FOR THE PERIOD	(497)	(41)	(535)
EARNINGS PER SHARE			
Basic (loss)/earnings per share (pence)	<u>(0.067)</u>	<u>(0.006)</u>	<u>(0.068)</u>
Fully diluted (loss)/earnings per share (pence)	<u>(0.062)</u>	<u>(0.006)</u>	<u>(0.067)</u>
DIVIDENDS PER SHARE (pence)	<u>—</u>	<u>—</u>	<u>0.01</u>

**NOTES TO THE CONSOLIDATED SUMMARISED
PROFIT AND LOSS ACCOUNT**

FOR THE SIX MONTHS ENDED 30 APRIL 2004

Notes**1. Earnings per share**

The basic loss per share is based on an attributable loss after tax of £490,000 (2003: £41,000) and on the basic weighted average ordinary shares in issue during the period of 733,889,937 (2003: 686,829,750). The fully diluted earnings per share are based on an attributable loss after tax of £490,000 (2003: £41,000) and on the diluted share holding of 785,187,525 (2003: 687,556,312).

2. Research and development expenditure of £831,000 (2003: £357,000) has been incurred in the period. Of this expenditure £831,000 (2003: £357,000) 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. Exceptional items of £226,000 relate to the costs associated with the High Court action that Stanelco Fibre Optics Limited, a wholly owned subsidiary of Stanelco Plc, is taking against BioProgress. The action relates to determining that BioProgress has no claim of entitlement to patents granted to Stanelco Fibre Optics Limited. The Board are advised that the Group should recover a significant amount of the costs incurred following a successful outcome.
4. There is an additional provision for dividends payable in the period in respect of the final dividend for year end 2003 following the Rights Issue.
5. The figures for the year ended 31 October 2003 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 2003 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 2004

	Unaudited Six months ended 30 April 2004 £'000	Unaudited Six months ended 30 April 2003 £'000	Audited Year ended 31 October 2003 £'000
(LOSS)/PROFIT FOR THE FINANCIAL PERIOD	(490)	(41)	(467)
Minority interest	—	—	2
Dividends	(7)	—	(70)
	(497)	(41)	(535)
Rights Issue 58,527,479 Ordinary 0.1p shares	1,568	—	—
New share capital subscribed	456	—	531
Net addition to shareholders' funds	1,527	(41)	(4)
Opening shareholders' funds	2,647	2,651	2,651
Closing shareholders' funds	4,174	2,610	2,647

CONSOLIDATED BALANCE SHEET

AT 30 APRIL 2004

	Unaudited		Audited	
	At 30 April 2003		At 31 October 2002	
	£'000	£'000	£'000	£'000
FIXED ASSETS				
Intangible assets	2,384		1,586	
Tangible assets	<u>747</u>		<u>502</u>	
		3,131		2,088
CURRENT ASSETS				
Stocks	589		537	
Debtors	265		515	
Cash at bank and in hand	<u>857</u>		<u>264</u>	
	1,711		1,316	
CREDITORS: amounts falling due within one year	<u>(559)</u>		<u>(648)</u>	
NET CURRENT ASSETS		<u>1,152</u>		<u>668</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,283</u>		<u>2,756</u>
PROVISIONS FOR LIABILITIES AND CHARGES		<u>(82)</u>		<u>(82)</u>
		<u>4,201</u>		<u>2,674</u>
CAPITAL AND RESERVES				
Called up share capital		772		702
Share premium account		3,551		1,597
Profit and loss account		<u>(149)</u>		<u>348</u>
SHAREHOLDERS' FUNDS		<u>4,174</u>		<u>2,647</u>
Minority interest		<u>27</u>		<u>27</u>
		<u>4,201</u>		<u>2,674</u>

The Interim Accounts were approved by the Board on 28 June 2004

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 2004

	Note	Unaudited Six months ended 30 April 2004 £'000	Unaudited Six months ended 30 April 2003 £'000	Audited Year ended 31 October 2003 £'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	1	(282)	139	(367)
RETURNS ON INVESTMENT AND SERVICING OF FINANCE				
Interest received		8	15	23
Interest paid		(1)	—	—
NET CASH INFLOW/(OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		7	15	23
TAXATION				
Corporation tax (paid)		—	(2)	(4)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT				
Investment in intangible fixed assets		(831)	(357)	(619)
Purchase of tangible fixed assets		(12)	(13)	(144)
Sale of tangible fixed assets		12	6	33
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		(831)	(364)	(730)
ACQUISITIONS AND DISPOSALS				
Cash at bank acquired with subsidiary		—	—	256
EQUITY DIVIDENDS PAID				
Dividend paid		(3)	(2)	(65)
FINANCING				
Issue of ordinary share capital		1,702	—	—
NET CASH INFLOW FROM FINANCING		1,702	—	—
INCREASE/(DECREASE) IN CASH	2	593	(214)	(887)

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 APRIL 2004

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

	Unaudited Six months ended 30 April 2004 £'000	Unaudited Six months ended 30 April 2003 £'000	Audited Year ended 31 October 2003 £'000
Operating (loss) for the period	(497)	(111)	(647)
Amortisation of intangible fixed assets	33	25	59
Depreciation of tangible fixed assets	67	43	129
Loss/(profit) on disposal of tangible fixed assets	10	(2)	(5)
(Increase)/decrease in stocks	(52)	(17)	120
Decrease in debtors	250	424	314
(Decrease) in creditors due within one year	(93)	(215)	(340)
(Decrease) in provision for liabilities and charges	—	(8)	3
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	<u>(282)</u>	<u>139</u>	<u>(367)</u>

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

	Unaudited Six months ended 30 April 2004 £'000	Unaudited Six months ended 30 April 2003 £'000	Audited Year ended 31 October 2003 £'000
Increase/(decrease) in cash in the period	<u>593</u>	<u>(214)</u>	<u>(887)</u>
Change in net debt resulting from cash flows	593	(214)	(887)
NET FUNDS AT BEGINNING OF PERIOD	<u>264</u>	<u>1,151</u>	<u>1,151</u>
NET FUNDS AT END OF PERIOD	<u>857</u>	<u>937</u>	<u>264</u>

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 APRIL 2004

CONTINUED

3. ANALYSIS OF CHANGES IN NET FUNDS

	At		At
	1 November		30 April
	2003	Cash flow	2004
Unaudited	£'000	£'000	£'000
CASH AT BANK AND IN HAND	<u>264</u>	<u>593</u>	<u>857</u>
	At		At
	1 November		30 April
	2002	Cash flow	2003
Unaudited	£'000	£'000	£'000
Cash at bank and in hand	<u>1,151</u>	<u>(214)</u>	<u>937</u>
	At		At
	1 November		31 October
	2002	Cash flow	2003
Audited	£'000	£'000	£'000
Cash at bank and in hand	<u>1,151</u>	<u>(887)</u>	<u>264</u>

