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Executive Directors

Paul R Mines	Chief Executive
Susan J Bygrave[1]	Group Finance Director

Non-Executive Directors

Elizabeth J Filkin	Senior Independent Director
John F Standen	Chairman

Company Secretary

Donna R Simpson-Strange[2]

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Contents

Chairman’s statement	3
Chief Executive’s statement	7
Directors’ report	13
Corporate governance report	18
Directors’ remuneration report	23
Statement of directors’ responsibilities	27
Report of the Independent auditor	28
Principal accounting policies	30
Consolidated statement of comprehensive income	40
Consolidated statement of financial position	41
Company statement of financial position	43
Consolidated statement of changes in equity	45
Company statement of changes in equity	46
Consolidated statement of cash flows	47
Company statement of cash flows	48
Notes to the financial statements	49

Chairman's statement

Operationally, this has been a strong year for Stanelco despite the general economic environment and more specific difficulties in the global plastics markets. Revenue growth exceeded 20% in both of the Group's divisions, and in the UK-based bioplastics business (rebranded Biome Bioplastics in January 2010) revenue growth was 30%. These results support our strategy to develop aggressively our bioplastics business by working closely with major customers to provide products with the winning credentials of sustainability and biodegradation.

It is particularly pleasing to see that the significant growth in revenues enabled our BioPlastics Division to move into profit in 2009 (before the legal costs associated with the Novamont S.p.A. ("Novamont") patent litigation). This gives the Board encouragement that the underlying business model for our materials is robust.

The Group's loss from operations also reduced. This improvement has come not only from the gross profit improvement and from revenue growth but also a tight focus on expenditure/cash that has seen central costs reduce by £0.6m (before non-cash share option charges) and continuing improvement in the RF Applications Division.

The Board believes that shareholders are best served by this strategy of driving revenue growth and controlling costs with the aim of moving the Group towards profitability. The commercial capability of the technology is emerging and we have a team in place providing the innovative development of a broader range of products that can accelerate value generation for the benefit of the business and its shareholders.

Further funding is necessary in order to underpin and achieve this and the Board has decided to proceed with the planned fundraising to ensure that the Group can fulfill its potential.

Results

Group revenues increased by £3.1m to £17.9m in the year ended 31 December 2009, an increase of 21% compared with the previous year.

Biome Bioplastics increased its revenues by 30%, Biotec by 23% and RF Applications by 23%.

Gross profit for the year increased from £2.8m to £3.6m and the gross margin increased to 20% (2008: 19%).

The loss from operations for the year reduced to £2.6m (2008: £2.8m) despite £0.7m of additional legal costs being incurred in Biotec in 2009 in defending the Novamont legal action.

After foreign exchange losses and gains (mainly on inter-company loans), the loss before taxation was £3.6m (2008: £0.5m), delivering a loss per share of 0.104 pence (2008: earnings per share 0.005 pence).

Our cash position at the year end was £3.2m, with a net cash outflow from operating activities of £2.5m and some absorption of cash into working capital as the business expanded (2008: £1.4m).

Strategy

Our Group strategy is to:

- build a clear market leading position based on patented technology;
- develop from existing IP base into in a range of new functional application areas where premiums can be obtained;
- create and build bioplastic markets by working intimately with consumer facing international business; such development to be application lead rather than technology push; and
- drive the businesses' differentiation by developing and retaining a team that is recognised as head and shoulders above the competition in application and product engineering.

Our continuing development work seeks not only to enhance the functional characteristics of its products but also to reduce the cost base of these materials in order to improve margins generated. The Group intends to continue to protect its existing intellectual property in a robust manner and will seek to protect new developments through patents and confidentiality in an appropriate way.

It is pleasing to note that the French court took the view earlier this month that Biotec's original technology does not infringe Novamont's three patents and indeed, whilst one of these patents has already expired, a second was found to be partially invalid. This allows the Group to proceed with increased confidence in the market. All efforts have, and will continue to be made, to end this dispute as soon as possible if resolution in an equitable manner can be achieved.

We have had supportive feedback from customers following the branding of our UK bioplastics business as Biome Bioplastics and we will seek to develop this as a leading bioplastics industrial brand. The Biotec joint venture will continue to be optimised for supporting the manufacturing scale-up of existing and new products.

We will continue to develop the RF Applications Division in-line with its re-emergence as a small scale OEM engineering business. Opportunities will also be sought to accelerate the business to a meaningful scale or to realise best value for shareholders in other ways.

The Board has also examined all operational savings that can be made in order to underline to shareholders our belief that the current development strategy is working and will continue to do so. In support of our growth strategy the Directors will reduce their remuneration packages during this period of cash constraint by approximately 30% following successful completion of the fundraising described below and make further staff cost reductions. These savings will reduce the cash burn in respect of central costs by approximately £0.3m per annum.

Planned Fundraising

The Board believes that this strategy will be the most viable way to build a valuable and fast growing business. However, further funding will be required.

To continue to pursue the Group's intended strategy, the Company is seeking to raise up to £3.5 million (before expenses) from the planned fundraising in May 2010, to be achieved through a placing and open offer. The net proceeds of the fundraising will be used:

- to support the continued development of the Group's bioplastics products and bioplastics market position with a view to commercial and technical leadership in this arena;
- to fund the Group's central overheads and listing costs until sufficient scale has been reached; and
- to strengthen the Group's working capital position as Group experiences continued strong sales growth.

A minimum of £2.7 million will need to be raised for the fundraising to proceed. Preparations for the proposed fundraising are well advanced and, as at the date of this statement, the Board already had non-binding indications of support to subscribe for more than 60% of this amount, including 5% to be taken up by the Directors and senior management of the Group. The Board considers that raising £3.5m would allow it to better maximise the opportunities for growth.

The placing and open offer will require a prospectus to be published by the Company, which will set out the background to and the reasons for the planned fundraising and its detailed terms. This document is expected to be published by the middle of May and we expect the fundraising to be completed by early June 2010.

In the event that the fundraising does not conclude successfully, the Group will be obliged to follow an alternate strategy that focuses principally on conserving its cash resources whilst seeking to realise potential value through an orderly disposal of the Group's assets. The Board anticipates that such a strategy will almost certainly require a cessation of much of the Group's current growth and development activity and a significant reduction in central costs.

Going concern

As explained above, in order to continue to pursue the Group's intended strategy, the Company is seeking to raise up to £3.5 million from an equity fundraising. If this fundraising is not successful then the Board will be obliged to follow the alternate strategy set out above. The Board considers that ceasing certain of its activities and seeking an orderly disposal of the Company's investments should generate sufficient cash to enable the Company and the Group to meet operational requirements whilst the Board pursues alternatives for realising shareholder value. However, successful disposal of the Group's investments cannot be guaranteed nor can the swift liquidation of its working capital or the continuing growth of the RF Applications Division if it becomes more closely constrained in terms of cash.

The Board has concluded that the combination of these circumstances represents a material uncertainty that casts significant doubt over the Company's ability to continue as a going concern and that, therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after making enquiries and considering the uncertainties described above, the Board has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and, accordingly, that it is appropriate to adopt the going concern basis in the preparation of the Company and the Group's financial statements.

Board and employees

Our development path this year owes much to the support of our employees and their passion for building a business around these technologies. I would like to thank them for all their efforts for the Group. I believe we have strong teams working throughout the business to continue the Group's progress.

Shareholder Meetings

It is anticipated that the formal announcement of the fundraising and the publication of the prospectus will occur in May. Shareholder approval of the placing and open offer will then be sought at a General Meeting of the Company which will be convened approximately 17 days later.

To allow time for the fundraising to be considered fully and to complete, the Board is proposing to delay this year's Annual General Meeting until late June 2010.

Current Trading

As reported in the Group's Interim Management Statement for the period 1 January 2010 to 28 April 2010 released today, Group revenues have continued to grow strongly during the three months to 31 March 2010 and the Group's overall trading performance remains in line with the Board's expectations.

Following the expiry of the rights attaching to the "Golden Share" which the Company held in its 50/50 joint venture, Biotec, the Company will no longer consolidate 100% of Biotec's results. The revenues and cash balances reported below for 2010, therefore, include 50% of the figures reported by Biotec and the prior year figures are reported on the same basis to allow a like-for-like comparison.

Group revenues in the three months to 31 March 2010 increased from £2.1m to £2.6m on a like-for-like basis (including 50% of Biotec's revenues), an increase of 26% compared with the same period last year. This reflected a 76% increase in bioplastic sales made by Biome Bioplastics, a 58% increase in sales in RF Applications Division and a 7% increase in third party sales from our joint venture, Biotec.

Our cash position at 31 March 2010 was £2.4m, including 50% of Biotec's cash balance.

Outlook

The Board believes that it has demonstrated the potential for creating value for shareholders by sustainable growth of the bioplastics business, and believes there are substantial opportunities in its product and sales development pipeline to accelerate this further in 2010 and beyond.

In 2009 we have delivered good top line growth and made significant progress with product development leading to the launch of several new market leading bioplastics. A focus on cost control and reduction has ensured that the effect of this revenue has come through to bottom line improvement despite the increased costs of defending the Biotec technology from the Novamont challenge.

This strong revenue growth has continued into 2010 and the Board is confident that there are both exciting future opportunities exist in our market and that we are well positioned to capitalise on them.

We now intend to seek support from our shareholders to enable us to fund the accelerating development of the Group.

John Standen
Chairman

28 April 2010

Chief Executive's statement

Performance

The Stanelco team have delivered another year of revenue growth and reduced operating loss; the third in a row. Although 2009 was a difficult year in the global plastics markets, I am pleased that we have been able to keep the BioPlastics and RF Applications Divisions both growing and improving their margins during this period.

Operational Review

Stanelco BioPlastics

The BioPlastics business has continued to make further strong progress with sales increased from £13.7m to £16.6m. Improvement in gross margin helped to move the consolidated BioPlastics business to an underlying operating profit of £0.5m before the Biotec legal costs of £1.3m. It is encouraging to see this demonstration of the underlying commercial viability of the bioplastics technology.

Stanelco's direct sales of bioplastics though Biome Bioplastics increased from £1.8m in 2008 to £2.4m in 2009 as the commercial team built sales with both existing and new customers. The majority of these sales remain on the original products developed by Biotec and have been generated by working closely with customers to realise their product concepts, deliver appropriate economics with bioplastics and to scale-up their production processes.

As the year progressed, we were able to take some of the new products, developed in Biome Bioplastics at the Southampton development centre, out into the market to test their capability on full scale production lines. As confidence in their performance has grown, this has led to commercial launches to broader markets in early 2010.

Markets

Conventional, oil based plastics are ubiquitous – many were invented in the early 20th century and they became part of everyday life from the 1950s onwards. Now, they can be found throughout our homes and cars, in our workplaces and leisure activities. They range from short life packaging products that are used for a day and then discarded, through consumer durables and electronics to long life physical infrastructure that endures for decades.

Oil based plastics have been so successful due to their low cost related to their oil based origins and their ability to be processed rapidly in mass production. Modern bioplastics, such as those now launched by Biome Bioplastics, are now challenging the dominance of their "petro" cousins. These bioplastics are being developed with the functional capability to substitute in many existing plastic applications and allowing them to be transformed on the existing infrastructure of conversion equipment.

Conventional wisdom regarding bioplastics sees them used in shopping bags, short-life packaging and disposable items but this is changing as their attributes are enhanced. Bioplastics can, but don't have to, decompose rapidly. Advances in science allow them to perform their required uses for decades if required.

Today's bioplastics are derived from sustainable plant sources, reducing their exposure to oil price inflation. As the underlying biomass for bioplastics is grown, CO2 is converted into the polymer structures that form these innovative materials. This CO2 is held in the plastic's structure until it is released through the materials eventual degradation that can range from months to decades later. Consider it a form of "material" carbon sequestration that produces a useful product.

A consensus about the rate of growth in the bioplastics market in 2009 has yet to emerge, although the rate of growth was subdued in comparison with 2008. It is encouraging that at a time when the oil-based plastics industry was subdued, a number of the bioplastics industry players were reporting growth.

In 2009, the Group experienced increasing interest in its products due to their renewable content. Whilst it remains important that in many applications our products biodegrade or compost, we are now often asked to deliver materials with a specified level of renewable content/new carbon.

There is also improving clarity that further substantial investment is being made in pre-cursor materials for our bioplastics. This will ensure both that our growth is not inhibited from scarcity of supply and the cost base of these materials continues to reduce.

Technical Development

The Biome Bioplastics team at Southampton is working to improve the functional properties of bioplastic materials in a number of carefully selected areas. This work is more often undertaken with a lead customer for a given sector to ensure the commercial viability of the product.

There was one addition to the team in the year as the pipeline of new products was prepared. There has also been further minor investment at the Southampton pilot/development unit during 2009. This has been focused on product testing and small scale industrialisation equipment. This facility now has the capability to manufacture small quantities of new bioplastics and to trial them through several common industrial conversion processes.

The business continues to make use of both university and commercial laboratory facilities, where appropriate. During the year we extended such collaborations with a number of practical units in leading universities. It has been encouraging to see their support for our development and their interest in our new range of materials.

As the pipeline of new and novel materials from Biome Bioplastics has begun to mature, the business has sought to protect this IP. The patent application process has been initiated on a number of candidate compositions.

Commercial Activity

The commercial team built sales and developed relationships with a number of important customers through the year.

Sales activity has been targeted at both the conversion area of the supply chain as well as brand owners. Work with a number of blue chip customers now using or evaluating Stanelco's bioplastics is ongoing and these relationships continue to develop. These customers now include end-use applications in the horticulture, electronics, stationery products, personal care, food service and the snack markets.

Following the re-entry into the North American market in 2008, our sales office in the USA has begun to build a number of interesting positions. A personal care launch has taken place whilst other activity has included electronics and horticulture.

The successful launch of the Biome Bioplastics brand took place in January 2010. The re-branding has been well received by customers.

This commercial progress made in 2009 has continued and accelerated into the first quarter of 2010 with Biome Bioplastics exhibiting 76% growth compared to the same period in 2009.

In the first quarter of 2010 a number of notable projects that have been in development for some time have moved towards substantive commercial scale:

- A producer of personal care products has begun a controlled launch of a new product, made from Biome Bioplastics materials, with a major USA retail chain and is now planning a European launch.
- A large multinational beverage and confectionery manufacturer has been developing and evaluating a range of Biome materials for confectionery packaging for two years. This company is committed to progressively introducing sustainable materials into their product range. Full scale trials are underway into two main application areas, one of which, for secondary packaging, is expected to result in substantial sales in the second half of this financial year. The second, requiring modified atmosphere packaging is expected to result in further volumes from 2011, onwards.
- Having tested Biome resins on full-scale equipment a major American supplier to the food processing market is keen to take the products to market. Having already purchased initial quantities, anticipated success in composting trials could result in this supplier becoming a substantial customer in the second half of this year.
- One of the world's largest suppliers of horticultural plastic products, this major producer carried out a number of successful full-scale processing trials, of Biome blends, in 2009. Based on this success, they have since been carrying out field trials in a range of climatic locations. The first set of these trials is nearing completion and is said to be positive. Although some of the trials will take several more months, larger sales are expected to begin in the second half. By 2011, this could be another substantial customer.
- A European retail chain has been assessing making one of its high profile products from Biome bioplastics. Several full scale production trials have been completed and assessed by their convertor. We are now in commercial discussions to firm up on prices and volumes for 2010.

- Two of the world's largest suppliers to the catering industry are evaluating the new BiomeHT range, which has higher temperature resistance than conventional bioplastics, for hot food and beverage use. The products were developed in association with these companies.

Production

Biotec manufactures biodegradable products from its base in Germany to support the sales and manufacturing activities of Stanelco and SPhere, our joint venture partner.

Previously, Stanelco held a casting vote over certain matters in the Biotec Board (through a "Golden Share") albeit this has not been utilised since its acquisition in 2005. This arrangement expired on 31 December 2009 and shareholder control of Biotec with SPhere SA moved seamlessly to a clear 50/50 basis from 1 January 2010.

Biotec is a capable and modern automated facility that, although it remains unproven by demand, may be able to flex up to 20,000 tonnes per annum in its current footprint/configuration. The unit is now also being used to assist in the industrialisation of products developed within Biome Bioplastics.

The Biotec team continued to work on cost minimisation and ensuring that quality performance remained at a high level.

Expenses

There has been a continued focus on the eradication of waste and cost as part of a continuous improvement programme. This has ranged across material and energy efficiency to challenging our suppliers for better value. Rationalisation of our central team and reduction in third party expenses has allowed central costs to be reduced by £0.6m (before non-cash share option charges).

Biotec Litigation

Stanelco announced on 29 May 2007 that the Board was evaluating claims against Biotec's technology made by Novamont (a competing bioplastics business). Subsequent updates have clarified that Novamont had brought proceedings against Biotec and SPhere 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. These actions were taken in the first instance by Novamont in both the French court and in two courts in Italy (Milan and Turin).

On 16 April 2010, the French Court notified Biotec of its favourable finding in relation to the patent infringement claims made by Novamont. Some three years after this case was launched, this is the first court finding on the merits of this case, and validates Stanelco's decision to mount a robust defence of Biotec's technology.

It should be noted that this French court finding does not affect the cases (referred to above) being pursued in Italy and that these may be expected to continue over the following months. Further action by the claimant, Novamont, by way of appeal in the French court is also possible.

However, Stanelco and Biotec continue to take professional and technical advice with regard to this litigation and are confident of further successful court outcomes. The Board has sought and will continue to seek the complete resolution of this matter as soon as possible provided the outcome is equitable.

STANELCO RF APPLICATIONS

RF Applications' sales increased by 23%, driving the unit from a loss into a modest profit.

The majority of the business continues to be spread across products such as RF induction furnaces for the optical fibre market, plastics welders for a wide variety of applications and associated spares and service.

There are clear signs that the growth in the fibre optic market in Asia is accelerating. This is being driven by Asian telecoms infrastructures moving directly to fibre based local connections rather than initial copper wiring. In addition, Western market growth has resumed as use of video based services through the internet has begun to stretch the utilisation of networks.

The business won several large orders for multiple fibre optic systems in late 2009 and early 2010 that provide good revenue visibility for 2010. The RF Applications Division appears well placed to capitalise on this growth. A number of our long-standing customers are embarking on large scale expansion projects and Stanelco's furnaces have been specified to be included in a variety of larger fibre making systems. The team has been undertaking continual work both to enhance the capability of our furnaces and to reduce their inherent costs which appears to have positioned us as the supplier of choice to this market.

The work to broaden its RF product offering into new areas such as industrial induction heating has continued to pay dividends with several of such units designed and manufactured in 2009. The business is receiving an increasing number of tenders for this area and we are confident we can capture a reasonable share of this market.

I am pleased that the business has continued its growth path through the macro-economic difficulties of 2009 and it enters 2010 with a substantially larger order book than seen in the last three years.

Financial review

Revenues

Group revenues increased in the year from £14.8m to £17.9m driven by strong growth in all parts of the Group's operations:

REVENUES	2009 £'m	2008 £'m	Growth
by business activity			
Biotec	14.1	11.5	23%
Biome Bioplastics	2.4	1.8	30%
Licence income	0.1	0.4	
Total BioPlastics	16.6	13.7	21%
RF Applications	1.3	1.1	23%
Total	**17.9**	**14.8**	**21%**

30% revenue growth was achieved in the UK Bioplastics business which was re-branded as Biome Bioplastics in January 2010.

From 1 January 2010, Biotec will no longer be treated as a subsidiary of the Group as the rights attaching to the "Golden Share" in the Biotec joint venture, which gave the Group control of the business, expired at the end of 2009. From 2010 onwards the Group will consolidate only 50% (its share) of the joint venture into its results. On that basis, the Group revenues for 2009 would have been £10.9m (2008: £9.1m). Biotec's revenues grew by 23% in the year.

Licence revenue in 2008 benefitted from a one-off £0.3m receipt in settlement for a claim for royalties for an item of intellectual property.

In total, the revenues of the BioPlastics division grew by 21%.

In RF Applications revenues grew by 23%.

Operating profits/(losses)

The Group's loss from operations for the year reduced from £2.8m to £2.6m. Before share option charges/credits, the Group's loss from operations reduced from £3.2m to £2.5m.

An analysis of the loss from operations by business activity is given in the table below:

PROFIT/(LOSS) FROM OPERATIONS	2009 £'m	2008 £'m
by business activity		
BioPlastics – before Biotec legal costs	0.5	(0.2)
Biotec legal costs	(1.3)	(0.6)
Total BioPlastics	(0.8)	(0.8)
RF Applications	—	(0.1)
Central Costs	(1.8)	(1.9)
Total	**(2.6)**	**(2.8)**

The results of the BioPlastics Division have been depressed by the significant level of legal costs in Biotec resulting from the defence of the Novamont litigation. Biotec's total legal costs amounted to £1.3m in 2009 (2008: £0.6m). During the year, a significant amount of work was done in putting together a robust defence of Novamont's claims. Before legal costs, the BioPlastics Division made a £0.5m profit from operations compared with a loss of £0.2m in 2008. This move into profit marks a major milestone for the business and came from the increasing revenues and an improvement in the gross profit margin.

The RF Division made a small profit in the year compared with a small loss in 2008. A small increase in salary costs for the new sales team were more than offset by the increasing revenues and improved gross margin.

Central costs for the year included a share option charge of £0.1m. In 2008, these costs benefitted from a £0.4m share option credit. Before these share option charges/credits, central costs reduced from £2.3m in 2008 to £1.7m in 2009.

Before share option charges/credits and before the Biotec legal fees, the Group's loss from operations reduced from £2.6m to £1.2m, reflecting the strong revenue growth across the business and the tight control on costs.

Product development costs of £0.4m (2008: £0.4m) were capitalised in the year. Tax R&D claims resulted in a tax credit received in the year of £0.1m (2008: credit of £0.2m).

Finance related charges, including foreign exchange gains and losses, totalled £0.9m for the year (2008: income of £2.3m). This included a £0.7m loss (2008: £2.1m gain) relating to the retranslation of intercompany balances.

After foreign exchange losses and gains, the Group's loss before tax for the year was £3.6m (2008: loss £0.5m), giving a loss per share of 0.104p (2008: earnings per share 0.005p).

Cashflow

The net cash outflow from operating activities in the year was £2.3m (2008: £1.4m), reflecting primarily the loss from operations of £2.6m. £0.5m of cash was absorbed into working capital as the business expanded but this was offset by £0.8m added back in the cash flows for depreciation and amortisation. The closing cash position was £3.2m. The future funding requirements of the business are discussed in the Chairman's Statement.

Key performance indicators (KPIs)=

The Board is focussed on a number of Key Performance Indicators (KPIs) that are used to measure performance.

The Group’s performance against these metrics for 2009 was as follows:

a) Financial measures

Growth in total revenues	- increased by £3.1m (21%)
Growth in bioplastic revenues by Biome Bioplastics	- increased by £0.6m (30%)
Growth in total gross margin	- increased by £0.8m (29%)
Reduction in loss from operations before share option charges/credits	- reduced by £0.7m (22%)

b) Other measures

Number of sets of customer trials in BioPlastics	60
Percentage of new customer trials leading to production orders	50%
New product launches in RF	3

The number of sets of customer trials in the year increased from 48 to 60. There were also approximately 50 new product trials carried out with various convertors, as we worked to finalise the characteristics of the new product range. 50% of trials with new customers led to production orders. This was down from 60% in 2008 when we were working with a smaller number of customers.

Employees

I would like to thank the Stanelco staff for another outstanding contribution this year, delivering high levels of growth across the Group and developing more successful products and business.

Paul Mines
Chief Executive Officer

28 April 2010

Directors' report

The directors present their Annual Report and the audited Financial Statements of Stanelco plc for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Group's operations are focussed in two distinct areas; Bioplastics and Radio Frequency. The BioPlastics division produces a biodegradeable and sustainable range of products. Such products are capable of replacing conventional oil-based plastics and have diverse application including flexible films, moulded products, extruded sheets and food wraps. The Radio Frequency (RF) division has worldwide renown in the design and installation of specialist RF furnaces, welders and induction equipment.

The subsidiary undertakings affecting the profits or net assets of the group in the year are listed in Note 9 to the financial statements.

BUSINESS REVIEW

A review of the Group's business and an indication of likely future developments is contained within the Chairman's statement and the Chief Executive's statement on pages 3 to 12. These statements are incorporated into this Report by reference.

RESULTS AND DIVIDENDS

The financial results of the Group are set out in the consolidated statement of comprehensive income on page 40.

The directors do not recommend payment of a dividend (2008: nil per share).

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the nature of the Company's strategy are subject to a number of risks. The directors have set out below the principal risks facing the business. The directors continually review the risks identified below and, where possible, processes are in place to monitor and mitigate such risks.

Political, economic and regulatory environment

The Group is subject to political, economic and regulatory factors in the various countries in which it operates. There may be a change in government regulation or policies which materially and/or adversely affect the Group's ability to successfully implement its strategy.

The directors aim to keep abreast of developments as they affect these factors and modify their strategy where this is appropriate.

Fluctuations in exchange rate may affect product demand in different regions and may adversely affect the profitability of products provided by the Group in foreign markets where payment is made for the Group's products in local currency.

The directors are informed regularly of the potential impact of exchange rate movements on the business and act to mitigate any adverse movements wherever possible.

The Group's products and manufacturing processes utilise a number of raw materials and other commodities. The markets for these materials and commodities may be subject to high price volatility.

The Group continually seeks to reduce its dependence on a small number of raw materials. It negotiates best possible prices and actively seeks new sources of raw material.

Some of the Group's products are employed in the food and pharmaceutical industries, both of which are highly regulated. There is a risk that the Group may lose contracts or be subject to fines or penalties for any non-compliance with the relevant industry regulations.

The Group ensures staff are well versed in the regulatory environment of its end use industries and regularly reviews its product portfolio to ensure compliance with relevant regulations.

Intellectual property

Although the Group attempts to protect its intellectual property, there is a risk that patents will not be issued with respect to applications now pending. Furthermore, there is a risk that patents granted or licensed to Group companies may not be sufficiently broad in their scope to provide protection against other third party technologies.

The Group takes professional advice from experienced patent attorneys and works hard to win patents applied for and to ensure that the scope is sufficiently broad.

Competition

There is a risk that competitors may be able to develop products and services that are more attractive to customers than the Group's products and services.

The Group aims to be ahead of the competition by continual development of its products targeted at specific customer requirements.

Commercialisation

There is a risk that the Group will not be successful in the commercialisation of its products.

The Group develops many products and some may not prove to be successful. The directors ensure that regular reviews of product development are undertaken so that unsuccessful developments can be terminated early in their life cycle.

Financial risks

The Group uses various financial instruments including cash, lease finance, equity and various items such as trade receivables and trade payables that arise directly from its operations. The existence of these instruments exposes the Group to a number of financial risks, the main ones being exchange rate risk, liquidity risk, interest rate risk and credit risk. The directors review and agree policies for managing each of these risks and these are summarised in Note 23 to the financial statements.

KEY CONTRACTUAL ARRANGEMENTS

There are no contractual arrangements which are considered essential to the business of the Group.

RESEARCH AND DEVELOPMENT

The continuous advancement of technology and processes by the Group means costs are incurred each year in research and development. For the year under review these costs amounted to £476,000 (2008: £541,000), of which £432,000 (2008: £399,000) was capitalised.

ENVIRONMENT

The Group is committed to the care of the environment, the prevention of pollution and the maintenance of environmental controls as they relate to the business. The Group ensures that all its activities are carried out in line with the applicable environmental legislation. An essential feature of environmental management is a commitment to improving environmental performance and reducing the environmental impacts of travelling, waste generation and disposal. This is achieved by setting annual environmental improvement objectives and targets, which are regularly monitored and reviewed.

EMPLOYEES

One of the Group's key assets is the technical know-how which is embedded in its employees. People are the key driver of the Group's success through their technical and management capabilities. It is, therefore, essential that the Group attracts the best people and retains and develops those who are already working for it. The Group consequently tries to provide attractive, competitive remuneration structures and give on-going training to develop its skill base.

The Group's policy is that, where it is reasonable and practicable within existing legislation, all employees, including disabled persons, are treated in the same way in matters relating to the employment, training and career development.

SOCIAL RESPONSIBILITY

The Board recognises that acting in a socially responsible way benefits the community, our customers, shareholders, the environment and employees alike. The Group's focus on the development of bioplastics is entirely in keeping with this philosophy.

CHARITABLE DONATIONS

During the year the Group did not make any charitable donations (2008: £nil).

GOING CONCERN

Going concern is discussed within the Chairman's statement on pages 3 to 6. This statement is incorporated into this Report by reference. Further details are given in the 'Basis of preparation' section of the Principal accounting policies on pages 30 to 39.

POST BALANCE SHEET EVENTS

On 28 April 2010 the Board approved the announcement of its intention to raise up to £3.5 million (before expenses) from an issue of shares. Further details of this are given in the Chairman's statement on pages 3 to 6.

The Group's shareholding in Biotec is 50 per cent with the remaining 50 per cent owned by SPhere. Until 31 December 2009, the Group retained a casting vote over all material decisions in the joint venture, therefore Biotec is accounted for as a subsidiary in these financial statements on the basis of control. The casting vote expired on 31 December 2009 and from 1 January 2010 Biotec will cease to be fully consolidated.

The first court judgement on Novamont's proceedings against Biotec was received in France 2010 and was in favour of Biotec. Further details of this are given in the Chief executive's statement on pages 7 to 12.

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 28 April 2010.

	Ordinary shares of 0.1p each	
	Percentage	**Number**
Schroder Investment Management Limited	5.94	182,899,143
Barclays plc	8.46	260,426,821
TD Waterhouse Nominees (Europe) Limited	11.48	353,437,660

SHARE CAPITAL AND CONTROL

The share capital of the Company, issued and unissued, consists entirely of one class of ordinary shares of 0.1p each. Each share ranks equally and carries the same rights to vote and receive dividends. No restrictions exist on the transfer or holding of the shares. Full details of the rights and obligations attaching to the Company's shares, in addition to those conferred by their holders by law, are set out in the Company's Articles of Association, a copy of which can be obtained by writing to the Company Secretary.

At the AGM held on 28 April 2009, the directors were authorised to allot equity securities for cash up to a maximum of five per cent of the issued share capital. The directors intend to renew this authority at the next AGM when this authority will expire. At the present time the directors have no plans to exercise this authority.

At the last AGM the directors were given the power to repurchase equity securities up to a maximum of ten per cent of the issued share capital. The power expires at the end of the next AGM and the directors intend renewing this authority. Purchases of shares by the company will only be undertaken where they are in the best interests of the Company and its shareholders. Shares repurchased in accordance with the authority will either be cancelled or held to help the Company meet its existing share option plans.

At the last AGM the directors were given the power to allot relevant securities up to an aggregate nominal amount of authorised but un-issued shares representing approximately a third of the issued share capital. The directors intend renewing their authority at the next AGM when this power expires.

The Company offers a number of share plans for its employees. The rights attached to ordinary shares which are the subject of awards within any of the Company's share plans are not available until any share award or option is exercised and the shares are allotted or transferred to that awardee.

Changes to the Articles of Association must be approved by special resolution of the Company.

The directors do not believe there are any significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a successful takeover bid.

There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment that occurs because of a successful takeover bid.

DIRECTORS AND DIRECTORS' INTERESTS

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

	Ordinary shares of 0.1p each	
	31 December 2008	31 December 2007
Elizabeth J Filkin (Senior Independent Non-Executive Director)	**—**	—
John F Standen (Chairman)	**2,000,000**	2,000,000
Paul R Mines (Chief Executive)	**1,100,000**	—
Susan J Bygrave (Group Finance Director)	**—**	—
Clive H Warner (Group Finance Director)	**—**	—

Clive H Warner resigned as Group Finance Director on 1 January 2009 and Susan J Bygrave was appointed in this position on 5 January 2009.

The above directors had no non-beneficial interests in the shares of the Company.

Share options granted to directors are set out in the Directors' Remuneration Report on pages 23 to 26. Except as disclosed in that report, there were no other transactions between directors and the Company or its subsidiaries.

In accordance with the Articles of Association the appointment of new directors must be ratified by the shareholders at the AGM following their appointment. In addition, one third of the directors of the Company must retire by rotation and seek re-election by the shareholders at each AGM. Every director should seek re-election by shareholders at least every three years.

Accordingly, Paul R Mines retires by rotation and offers himself for re-election at the forthcoming AGM.

BOARD OF DIRECTORS

Further to the changes noted above the Board of Directors comprises:

John F Standen, Age 61, Non Executive Chairman

John is Non-Executive Director of Lavendon Group plc. He is also Chairman of Council at the University of Hull. John was previously Non-Executive Chairman of Reg Vardy plc until its sale in 2006. He spent his career in corporate finance and was Chief Executive of BZW Corporate Finance before retiring from Barclays Bank plc in 1998.

Elizabeth J Filkin, Age 69, Senior Independent Non Executive Director

Elizabeth was Parliamentary Commissioner for Standards. She is Chairman of The Advertising Advisory Committee and Non Executive Chairman of Annington Homes plc.

Paul R Mines, Age 46, Chief Executive Officer
For the eight years to 2006, Paul was CEO of Betts Group Holdings Ltd having led a management buy-out of the company from Courtaulds plc. An engineer with an MBA from London Business School, Paul spent his earlier career at Courtaulds plc and ICI plc. He is currently Non-Executive Chairman of CEL-F Solar Systems Limited and a Director of Windmine Limited and Sulgrave Road Management Company Limited.

Susan J Bygrave, Age 44, Group Finance Director
Sue was appointed Group Finance Director on 5 January 2009. Prior to joining Stanelco, she was Group Finance Director of VEGA Group plc, a specialist professional services group listed on the London Stock Exchange. Prior to this she worked for Mettoni Group plc, DCS Group plc and KPMG, with whom she qualified as a chartered accountant.

CORPORATE GOVERNANCE

The corporate governance report on pages 18 to 22 forms part of the Directors' report.

PAYMENT POLICY AND PRACTICE

It is the Group'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 27 days' purchases (2008: 17 days), based on average supplier invoicing during the year.

AUDITORS

Grant Thornton UK LLP have expressed their willingness to continue in office. In accordance with Section 489(4) of the Companies Act 2006 a resolution to reappoint Grant Thornton UK LLP as auditors of the Company will be proposed at the forthcoming AGM.

By Order of the Board

Donna R Simpson-Strange
Company Secretary

28 April 2010

Corporate governance report

The Group is committed to business integrity, high ethical values and professionalism in all its activities. As an essential part of this commitment the Group supports the highest standards in corporate governance. The Board is accountable to the company's shareholders for good governance and this statement and the Directors' remuneration report describe how the principles of good governance set out in the 2008 Combined Code on Corporate Governance ("the Combined Code"), published by the Financial Reporting Council are applied within the company.

The Corporate governance report forms part of the Directors' report on pages 13 to 17.

Compliance

The company complied throughout the year with the provisions of, and applied the principles of, the Combined Code.

The company's auditors, Grant Thornton UK LLP, are required to review whether the above statement reflects the company's compliance with the nine provisions of the Combined Code specified for its review by the Listing Rules and to report if it does not reflect such compliance.

The Board

Throughout 2009, the board comprised the non-executive chairman, one other non-executive director and two executive directors. On 1 January 2009 the group finance director, Mr C Warner, resigned from the board and was replaced on 5 January 2009 by Ms S Bygrave. Biographical details of each of the directors, which illustrate their range of experience, are set out in the Directors' Report on pages 13 to 17.

The non-executive directors are considered by the board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement.

The division of responsibilities between the non-executive chairman and chief executive is clearly established and is understood by the board. The non-executive chairman is responsible for the overall strategy of the Group with the chief executive officer being responsible for implementing the strategy and for the day to day running of the Group.

The senior independent director is Ms E Filkin and she is the director whom shareholders may contact if they feel their concerns are not being addressed through the normal channels. The non-executive directors meet at least once a year without the executive directors present.

The individual committee responsibilities of the directors are as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
J F Standen (Non-Executive Chairman)	Chairman	Member	Member	Chairman
E J Filkin (Senior Independent Non-Executive Director)	Member	Chairman	Chairman	Member
P R Mines (Chief Executive)	Member	*	*	*
S J Bygrave[1] (Group Finance Director)	Member	*	*	*

[1]Appointed 5 January 2009

All directors are subject to election at the AGM immediately following their appointment and to re-election every three years.

The chairman and senior non-executive director provide a wide range of skills and experience to the Group. They bring an independent judgement on issues of strategy, performance, risk and people through their contribution at board and committee meetings. After careful consideration, the Board has again concluded that Mr Standen and Ms Filkin were independent throughout the year. In arriving at this conclusion the Board has applied the criteria set out in provision A.3.1 of the Combined Code. Mr. Standen's shareholding in the Company is considered to be too small to affect his independence.

Board Procedures

The board met formally on 15 occasions during the year and individual attendance at those and the Board Committee meetings is set out in the table below. All board members are supplied with information in a form and of a quality appropriate to enable them to discharge their duties. Board and committee papers are sent out as appropriate before meetings take place.

There is an agreed Schedule of Matters reserved for the board for collective decision including:

- determining the strategy and control of the Group
- amendments to the structure and capital of the Group
- approval of financial reporting and internal controls
- approval of capital and revenue expenditure of a significant size
- acquisitions and disposals; and
- corporate governance matters and approval of Group policies and risk management strategies.

To enable the board to perform its duties effectively all directors have full access to all relevant information and to the services of the Company Secretary whose responsibility it is for ensuring that board procedures are followed. The appointment and removal of the company secretary is a matter reserved for the board. On 1 January 2009 Mr C Warner resigned as Company Secretary and was replaced on 2 January 2009 by Ms D Simpson-Strange.

There is an agreed procedure whereby directors wishing to take independent legal advice in the furtherance of their duties may do so at the company's expense. Appropriate training is available to all directors on appointment and on an ongoing basis as required.

The terms of reference for each of the Board Committees are available on request from the company secretary.

Attendance at Board and Committee Meetings

The following table shows the attendance of directors at meetings of the board and of the Audit, Remuneration and Nomination Committees of the board during the year to 31 December 2009.

	Board	Audit Committee	Remuneration Committee	Nomination Committee
J F Standen	15	3	1	1
E J Filkin	14	3	1	1
P R Mines	15	*	*	*
S J Bygrave	15	*	*	*
Number of meetings in the year	15	3	1	1

Where an asterisk appears in the table the director listed is not a member of the committee.

Board Effectiveness

During the year an appraisal of the board, each Board Committee, and the performance of the individual directors was carried out. The appraisal of the board and the committees was undertaken using questionnaires which were completed by each director as appropriate. A summary of the responses was reviewed by the chairman prior to the submission of the results to the whole board.

Relations with Shareholders

The company recognises the importance of communicating with its shareholders, including its employee shareholders, to ensure that its strategy and performance are understood. This is achieved principally through the Interim Report, the Annual Report and the AGM. In addition, a range of corporate information is available to investors on the company's website.

The Chairman, the Chief Executive and the Finance Director are primarily responsible for investor relations. Feedback from major shareholders is reported to the board and discussed at its meetings. Formal presentations are made to institutional shareholders following the announcement of the company's full year and interim results. The board recognises that the AGM is the principal forum for dialogue with private shareholders. All directors normally attend the AGM and are available to answer any questions that shareholders may wish to raise.

The Notice of Meeting is sent to shareholders at least 20 days before the meeting. Shareholders vote on a show of hands, unless a poll is validly called and after each such vote the number of proxy votes received for and against the resolution is announced.

The Remuneration Committee

The Remuneration Committee operates under written terms of reference and is comprised of the chairman and the independent non-executive director. Details can be found in the Directors' Remuneration Report on pages 23 to 26.

Nomination Committee

The Nomination Committee operates under written terms of reference. Its principal duty is the nomination of suitable candidates for the approval of the board to fill executive and non-executive vacancies on the board. The Nomination Committee comprises the non-executive chairman and the independent non-executive director. The meetings of the committee are chaired by the chairman. The committee's responsibilities include:

- regularly reviewing the structure, size and composition including the skills, knowledge and experience required of the board compared to its current position and make recommendations to the board with regard to any changes
- giving full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the company and what skills and expertise are therefore needed on the board in the future
- being responsible for identifying and nominating for the approval of the board candidates to fill board vacancies as and when they arise
- before making an appointment, evaluating the balance of skills, knowledge and experience on the board and, in the light of this evaluation prepare a description of the role and capabilities required for a particular appointment
- keeping up to date and fully informed about strategic issues and commercial changes affecting the company and the market in which it depends
- reviewing annually the time required for non-executive directors. Performance evaluation should be used to assess whether the non-executive directors are spending enough time to fulfil their duties
- ensuring that on appointment to the board, non-executive directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside board meetings
- keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace
- advising the board on succession planning for executive board appointments; and
- considering any other matters the board may request.

Following the appointment of a new director, the chief executive in conjunction with the Company Secretary, is responsible for ensuring that a full, formal and tailored induction to the company and to their function within the company is given.

Towards the end of 2008, on behalf of the board, the committee undertook a search for the appointment of a new Group Finance Director. The committee followed a formal and transparent search process. It prepared a job description and candidate specification against which to evaluate candidates and employed an external recruitment consultancy to provide a shortlist of suitable candidates for interview by the Chief Executive and committee members. After careful consideration of the candidates, the committee made a recommendation to the board which subsequently resulted in the appointment of Ms S Bygrave on 5 January 2009.

Audit Committee

The Audit Committee operates under written terms of reference, which were reviewed during the year, meets at least twice a year and is comprised of both non-executive directors. Elizabeth J Filkin, the senior non-executive director, chairs the committee. The committee, taken as a whole, is considered to have significant recent and relevant financial experience. The chief executive and finance director normally attend meetings by invitation and the committee also meets with the external auditors without management present.

The external auditors attended all of the meetings (in part if appropriate) and have direct access to the committee chairman. The company secretary acts as secretary to the committee. The chairman of the committee attends the AGM to respond to any shareholder questions that might be raised on the committee's activities.

The committee's responsibilities include:

- reviewing the effectiveness of the Group's financial reporting and internal control procedures for the identification, assessment and reporting of risks
- reviewing with the external auditors the nature and scope of their planned work
- reviewing the half year and annual financial statements before submission to the board, focusing particularly on:
  - any changes in accounting policies and practices
  - major judgemental areas
  - significant adjustments resulting from the audit
  - the going concern assumption
  - compliance with accounting standards
  - compliance with applicable stock exchange and legal requirements.
- discussing any problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of the executive directors and other management, where necessary)
- reviewing the cost-effectiveness, independence and objectivity of the external auditors
- considering the major findings of internal investigations and management's response; and
- considering any other matters the board may request.

The committee has the power to engage outside advisers if it considers it to be necessary.

The committee met three times during the year and its agenda is linked to events in the company's financial calendar. The agenda is mostly cyclical such that the committee chairman approves the agenda on behalf of all members.

The committee also liaises with the external auditors on the continuity and rotation of key partners from the external auditors in accordance with the Ethical Standards of the ICAEW.

The Group policy on the provision by the external auditors of audit and non-audit services, which is based on the principle that the external auditors should only undertake non-audit services where they are the most appropriate provider, categorises such services between:

- auditor permitted services – those services which are acceptable for the auditors to provide and the provision of which can be engaged without referral to the Audit Committee. (e.g. regulatory and other specialist financial reporting)
- auditor excluded services – those engagements that the Audit Committee and the board do not consider appropriate for the auditors to undertake. (e.g. provision of outsourced financial or operational management functions)
- auditor authorised services – those services for which it is appropriate to consider the use of the external auditors and for which the specific approval of the Audit Committee is required before the auditors are permitted to provide the service (e.g. transaction support and advisory work, such as due diligence).

The policy defines the types of services falling under each category and sets out the criteria to be met and the internal approvals required prior to the commencement of any assignment. The Audit Committee reviews an analysis of all services provided by the external auditors. The policy is reviewed annually by the Audit Committee and approved by the board.

The disclosure of the fees payable to Grant Thornton UK during the year are set out in Note 3 to the financial statements. The external auditors and committee chairman have regular dialogue concerning matters of independence and a report is made formally to the committee on this matter at least once a year. The Audit Committee is satisfied with the level of fees, independence, objectivity and effectiveness of Grant Thornton UK LLP. Accordingly a resolution for the re-appointment of Grant Thornton UK LLP as auditors of the company will be proposed at the forthcoming AGM.

The Group does not have a dedicated internal audit function. The board annually reviews the need for such a function and has done so during the year. During the year, there were no adverse trends evident from the monitoring of internal controls or unexpected or unacceptable results of a material nature and this has led the board to conclude that at present a dedicated internal audit function is not necessary. The board will continue to keep this matter under review.

Risk Management and Internal Control

The board is responsible for the Group's system of internal control and for reviewing its effectiveness. It is the role of management to implement the board's policies on risk and control through the design and operation of appropriate internal control systems. For the whole of the year under review and up to the date of approval of the Annual Report and Financial Statements, the board has had formal procedures in place to ensure that it is in a position to consider all the significant aspects of internal control and has worked closely with the external auditors in assessing and ensuring their effectiveness.

The board has conducted its annual review of the effectiveness of the Group's system of internal control.

This review has covered all controls including operational, compliance and risk management procedures, as well as financial. The process is summarised as follows:

- Operating management is charged with the ongoing responsibility for identifying risks facing each of the operating units and for putting in place procedures to mitigate, manage and monitor risks
- Operating units review all business risks and set out the significant risks to the operations, the controls in place and additional controls which could be implemented
- The risk and control identification and management process is monitored and periodically reviewed by Group executive management
- The key elements of the controls framework within which the Group operates are:
  - an organisational structure with clearly defined lines of responsibility, delegation of authority and reporting requirements
  - an embedded culture of openness of communication between operating company management and the Group executive management on matters relating to risk and control
  - defined expenditure authorisation levels
  - operating reviews covering all aspects of each business are conducted by Group executive management each month
  - a comprehensive system of financial reporting. An annual budget for each operating company is prepared in detail and approved by the chairman and the chief executive. The board approves the overall Group's budget and plans. Monthly actual results are reported against budget and prior year and the forecast for the year is revised where necessary. Any significant changes and adverse variances are questioned by the board and remedial action is taken where appropriate. There is daily cash reporting to the Group Finance Director and periodic reporting to the board on the Group's tax and treasury position.

The system of internal control is designed to manage rather than eliminate the risk of failing to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The risk framework as outlined above, gives reasonable assurance that the structure of controls in operation is appropriate to the Group's situation and that there is an acceptable level of risk throughout the business.

The board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group; that this has been in place for the year under review and up to the date of approval of the Annual Report and Financial Statements.

Directors' remuneration report

UNAUDITED INFORMATION

The Remuneration Committee comprises the two non-executive directors and is chaired by Elizabeth J Filkin, Senior Independent Director. The Remuneration Committee advises the board on individual directors' remuneration packages. The Remuneration Committee met once during the year to 31 December 2009. The Committee has access to independent advice where it considers it appropriate. The Remuneration Committee considers recommendations from the Chief Executive.

REMUNERATION POLICY

The remuneration policy is set by the board. The Remuneration Committee provides advice to the board on the remuneration package of each director. Directors take no part in decisions affecting their own remuneration. The main objectives of the company's executive remuneration policy are to provide remuneration packages that will attract, retain and motivate individuals of an appropriate calibre and ensure that the interests of the executive directors are aligned with those of the shareholders. The remuneration of executive directors consists of five elements: basic salary, a significant element of performance-related bonus, 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, but also having regard to the financial performance of the Group.

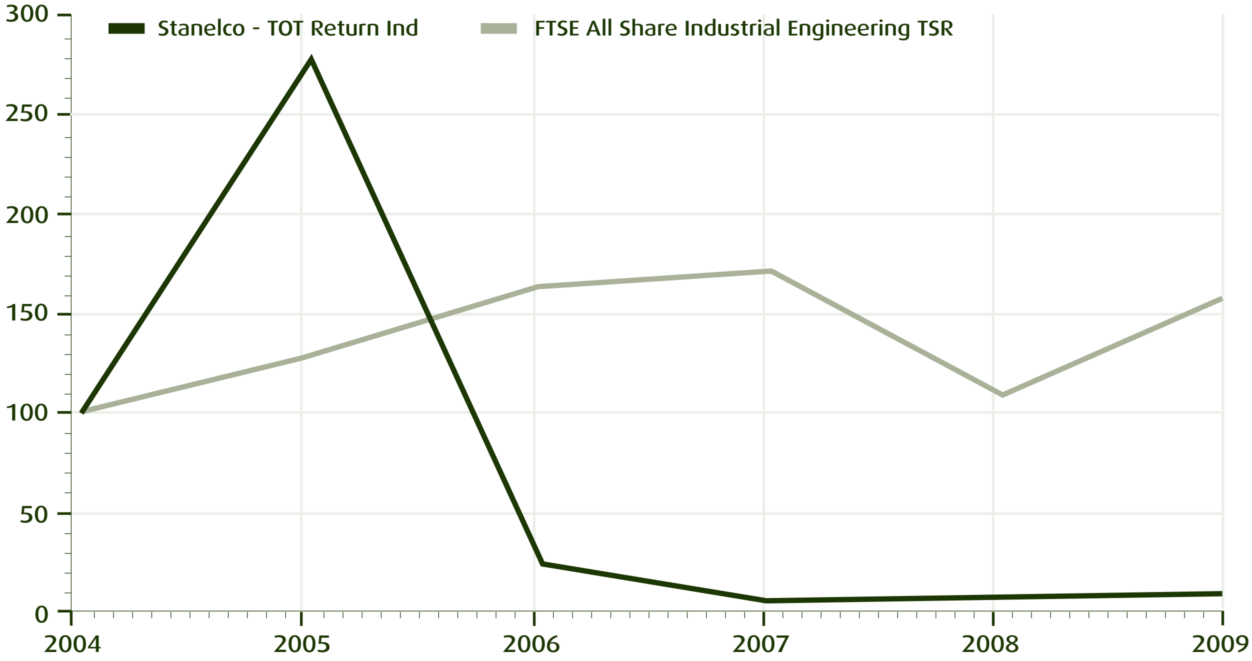
PERFORMANCE-RELATED INCENTIVES

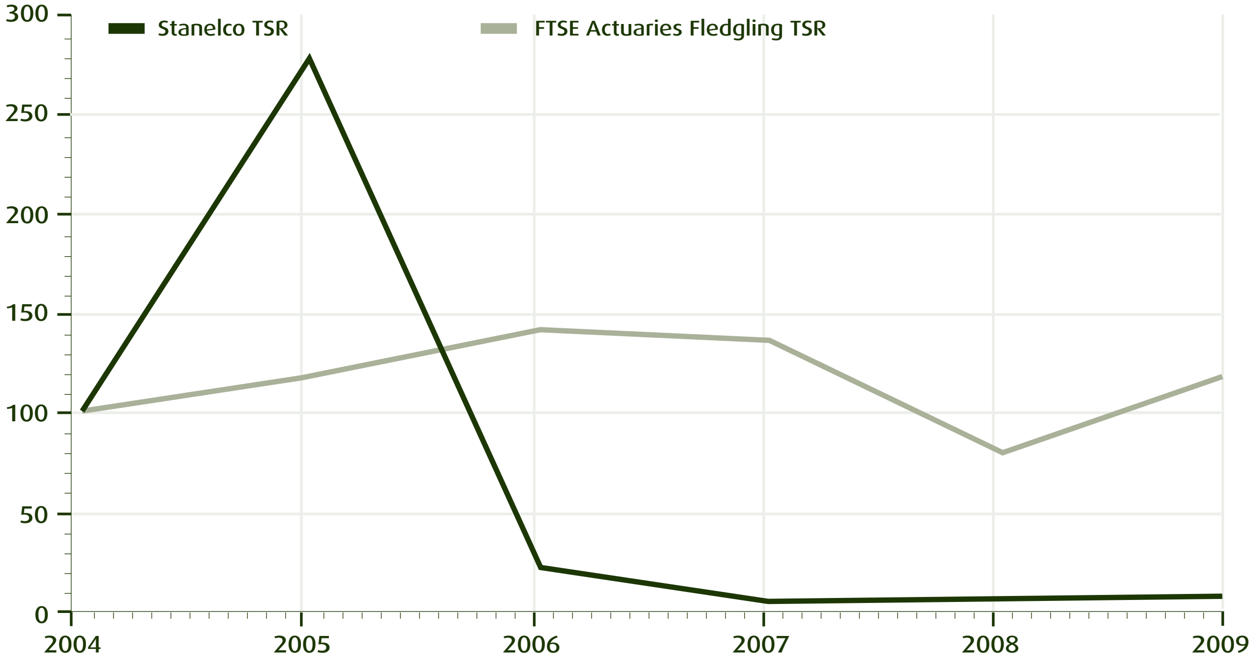
Annual performance-related bonuses are considered and awarded based on the performance of both the individuals and the Group and are awarded on the recommendation of the Remuneration Committee. The amount awarded is determined at the end of the financial period by the Committee and takes into account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

TOTAL SHAREHOLDER RETURN

The following graphs show the value at 31 December 2009 of £100 invested in the Company on 31 December 2004 compared with the value of £100 invested in the FTSE All Share Industrial Engineering Total Return Index, under which Stanelco PLC is listed, and the FTSE Fledgling Total Return Index. To produce a fair value, each point is a 30-day average of the relevant price/index.

Total shareholder return performance graphs





SHARE OPTIONS

The Remuneration Committee considers that long-term incentives should form an important part of senior executives' remuneration in order to reward the achievement of the company's growth, thereby aligning the interests of executives with the interests of shareholders. In this instance, the Committee considers share options are the most appropriate type of long-term incentive.

Since 2007, the policy of the Remuneration Committee has been to grant share options to a selected group of key executives (including the executive directors) under the terms of the Stanelco plc 2005 Unapproved Share Option Plan, up to a maximum value of 200 per cent of base salary in any one financial year. On expiration of three years from the date of grant, if the share price of the company's shares is equal to Xp then 25 per cent of the options will become available for exercise. The proportion of options available will increase pro rata up to 100 per cent if the share price is Yp or greater. For grants made on 4 July 2007, X and Y were 2.0p and 5.0p respectively. For all subsequent grants X and Y have been 1.0p and 2.5p respectively.

The Committee considers that the use of share price targets provides the clearest and simplest alignment between executive rewards and the returns to shareholders.

PROPOSED CHANGES

In order to reduce the future cash requirements of the Group and align even more closely the interests of the executives and shareholders, the Committee plans to propose a 30% reduction in the base salaries of the directors and the introduction of a new long term incentive plan, the Stanelco plc Public Equity Plan, provided the proposed fund raising detailed in the Chairman's Statement is successful. Shareholder approval of this plan which will seek to give the executives a share of the increase in the value of the Group over and above a minimum hurdle, will be sought at the Extraordinary General Meeting at which approval of the fund raising will be proposed.

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 Director	Termination notice company	Renewable
Non-Executives				
Elizabeth J Filkin	1 Sept 2003	None	None	Annually
John F Standen	26 Feb 2007	None	None	Annually
Executives				
Paul R Mines	16 April 2007	4 months	12 months	Normal retirement date
Susan J Bygrave	5 Jan 2009	6 months	12 months	Normal retirement date

PENSIONS

The company makes contributions to individual pension schemes for the executive directors at 10 per cent of basic salary.

The non-executive directors do not receive any pension contribution.

AUDITED INFORMATION

The auditors have audited the information contained in the following section of the Directors' Remuneration report:

DIRECTORS' SHARE OPTIONS

Stanelco plc 2005 Unapproved Share Option Plan and Stanelco plc Employment Benefit Trust.

As at 31 December 2009, the following options had been appointed to sub trusts by the Trustees of the Stanelco plc Employee Benefit Trust for the benefit of the following directors and their families:

	Date Granted	Date exercisable	Date option lapses	Exercise price	Ordinary Shares of 0.1p each 31 December 2007
Paul R Mines	4 July 2007	4 July 2010	3 July 2017	0.52p	57,692,308
	28 April 2008	28 April 2011	27 April 2018	0.80p	37,500,000
	24 April 2009	24 April 2012	23 April 2019	0.61p	49,180,328
Susan J Bygrave	24 April 2009	24 April 2012	23 April 2019	0.61p	48,360,656

The exercise price of the options granted under the above scheme is equal to the market value of the shares at the time when the options were granted. The performance conditions attached to the share options are detailed on page 21.

The company's share price on 31 December 2009 was 0.39p (31 December 2008: 0.32p) and traded during the year at prices between 0.28p and 0.77p (2008: 0.18p and 1.08p).

DIRECTORS' REMUNERATION DURING THE YEAR

	Year ended 31 December 2009					Year ended 31 December 2008
	Base salary/fees	Bonuses	Car allowances	Benefits in kind	Total	Total
	£	£	£	£	£	£
Paul R Mines	**150,000**	**38,250**	**9,600**	**1,341**	**199,191**	197,770
Susan J Bygrave	**145,798**	**37,613**	**9,600**	**490**	**193,501**	—
Clive H Warner	—	—	—	—	—	260,333
John F Standen	**45,000**	—	—	—	**45,000**	45,000
Elizabeth J Filkin	**25,000**	—	—	—	**25,000**	25,000
Total	**365,798**	**75,863**	**19,200**	**1,831**	**462,692**	528,103

The 2009 bonuses are still subject to approval by the Remuneration Committee and a final decision on whether these will be paid will be made once the result of the proposed fund raising is known.

The Company made contributions to individual pension schemes as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
	£	£
Paul R Mines	**15,000**	15,000
Susan J Bygrave	**14,580**	—
Clive H Warner	—	12,600
	29,580	27,600

By Order of the Board

Elizabeth J Filkin
Chairman of the Remuneration Committee

28 April 2010

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

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 parent company and the group as at the end of the financial year and of the profit or loss of the group for the financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). The directors have elected to prepare the parent company financial statements in accordance with IFRSs. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable International Financial Reporting Standards as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 adequate accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm on behalf of the Board that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Annual Report and Financial Statements include a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Paul Mines
Chief Executive Officer
Susan J Bygrave
Group Finance Director

28 April 2010

Report of the Independent auditor

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STANELCO PLC

We have audited the financial statements of Stanelco plc for the year ended 31 December 2009 which comprise the principal accounting policies, the consolidated and company statement of financial position, the consolidated statement of comprehensive income, the consolidated and company statements of cash flow, the consolidated and company statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKP

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2009 and of the group's loss for the year then ended
- the group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union; and
- the company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in the Basis of Preparation section within Principal Accounting Policies on pages 30 to 39 of the financial statements concerning the Group and Company's ability to continue as a going concern.

The Group incurred a net loss of £3,452,000 during the year ended 31 December 2009 and the directors have announced their intention to raise £3,500,000 before expenses from an issue of shares to pursue their current business strategy.

As explained on page 30 if this issue is not successful actions have been identified that should conserve the Group and Company's cash resources and generate funds to meet operational requirements as the directors pursue alternative strategies to realise shareholder value, however, the timing and impact of such actions cannot be guaranteed.

As explained on page 30 these conditions, along with other matters described on page 30 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group and Company's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the Group and Company were unable to continue as a going concern.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; and
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules, we are required to review:

- the directors' statement, set out on page 27, in relation to going concern; and
- the part of the Corporate governance statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

NORMAN ARMSTRONG
SENIOR STATUTORY AUDITOR
for and on behalf of
GRANT THORNTON UK LLP
STATUTORY AUDITOR
CHARTERED ACCOUNTANTS

SOUTHAMPTON
28 April 2010

Principal accounting policies

BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 December 2009.

The financial statements have been prepared under the historical cost convention. The measurement bases and principal accounting policies of the Group are set out below.

The directors have reviewed forecasts for the coming year which have been drawn up with appropriate regard for the current macroeconomic environment and the particular circumstances in which the Group operates. These were prepared with reference to historic and current industry knowledge, taking future growth into account. These forecasts demonstrate that there is a need for the Company to seek further funding if it is to continue with its growth strategy and the Board has, therefore, announced its intention to raise up to £3.5 million (before expenses) from an issue of shares.

If this issue is not successful then the directors have identified a number of actions that they could take to conserve the Group's cash resources and generate funds. These include the cessation of much of the Group's current growth and development activities, a significant reduction in central costs and seeking an orderly disposal of the Company's investments, as discussed in the Chairman's statement on pages 3 to 6.

The directors consider that the actions detailed above should generate sufficient cash to enable the Company and the Group to meet operational requirements whilst the Board pursues alternatives for realising shareholder value. However, successful disposal of the Group's investments cannot be guaranteed nor can the swift liquidation of its working capital or the continuing growth of the RF business if it becomes more closely constrained in terms of cash.

The directors have concluded that the combination of these circumstances represents a material uncertainty that casts significant doubt over the company's ability to continue as a going concern and that, therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after making enquiries and considering the uncertainties described above, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and, accordingly, that it is appropriate to adopt the going concern basis in the preparation of the Company and the Group's financial statements.

As with all business forecasts, the directors' statement cannot guarantee that the going concern basis will remain appropriate given the inherent uncertainty about future events.

ADOPTION OF NEW AND REVISED STANDARDS

The consolidated financial statements have been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year to 31 December 2008 except for the adoption of IAS 1 Presentation of Financial Statements (Revised 2007) and IFRS 8 Operating Segments.

The adoption of IAS 1 (Revised 2007) does not affect the financial position or profits of the Group, but gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged, however, some items that were recognised directly in equity are now recognised in other comprehensive income, for example exchange differences on translating foreign operations. IAS 1 (Revised 2007) affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'. Further, a 'Statement of changes in equity' is now presented.

None of the amounts shown in the statement of financial position have been changed from those included in previously published financial statements. Therefore it is not considered necessary to include a third comparative statement of financial position as would be required under IAS 1 (Revised 2007), had amendments been made.

The adoption of IFRS 8 has not changed the segments that are disclosed in the financial statements. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns. Under IFRS 8 the accounting policy for identifying segments is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. These are the same for the Group.

As of 31 December 2009, the following standards and interpretations are in issue but not yet adopted by the EU:

IFRS 9 Financial Instruments (effective 1 January 2013)
IAS 24 (Revised 2009) Related Party Disclosures (effective 1 January 2011)
IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009)
Amendment to IAS 39 Financial Instruments: Recognition and Measurement - Eligible Headed Items (effective 1 July 2009)
Group Cash-settled Share-based Payment Transactions - Amendment to IFRS 2 (effective 1 January 2010)
Improvements to IFRSs 2009 (various effective dates, earliest of which is 1 July 2009, but mostly 2010)
IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009)
IFRIC 17 Distributors of Non-cash Assets to Owners (effective 1 July 2009)
IFRIC 18 Transfers of Assets from Customers (effective prospectively for transfers on or after 1 July 2009)
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010)
Prepayments of a Minimum Funding Requirement - Amendments to IFRIC 14 (effective 1 January 2011)
Amendment to IFRS 1 Additional Exemptions for First-time Adopters (effective 1 January 2010)
Amendment to IAS 32 Classification of Rights Issues (effective 1 February 2010)

Based on the Group's current business model and accounting policies, management does not expect material impacts on the figures in the Group's financial statements when the interpretations become effective.

The Group does not intend to apply any of these pronouncements early.

BASIS OF CONSOLIDATION

The Group financial statements consolidate those of the company and all of its subsidiary undertakings drawn up to 31 December 2009. 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 31 December 2009 the subsidiary undertakings were Stanelco RF Technologies Limited, InGel Technologies 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.

The Group's shareholding in Biotec is 50 per cent with the remaining 50 per cent owned by SPhere. Until 31 December 2009, the Group retained a casting vote over all material decisions in the joint venture, therefore Biotec is accounted for as a subsidiary in these financial statements on the basis of control. The casting vote expired on 31 December 2009 and from 1 January 2010 Biotec will cease to be fully consolidated.

The assets and liabilities of the Stanelco plc Employee Benefit Trust ("EBT") are included within the consolidated statement of financial position 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.

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 statement of financial position 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.

GOODWILL

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the identifiable separable net assets acquired. Goodwill is recognised as an intangible asset and is subsequently measured for any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units. Cash-generating units to which the goodwill has been allocated and recognised as an asset are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. Any impairment is recognised immediately within administrative expenses in the statement of comprehensive income.

Goodwill written off to reserves prior to date of transition to IFRS at 1 November 2004 remains in reserves. There is no re-instatement of goodwill that was amortised prior to transition to IFRS. Goodwill previously written off to reserves is not written back to profit or loss on subsequent disposal.

REVENUE

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding VAT and trade discounts. Revenue is recognised upon the performance of services or transfer of risk to the customer.

Sale of goods

Revenue from the sale of goods occurs in the BioPlastics and RF Applications divisions. Revenue from sales of goods is recognised when all the following conditions have been satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, usually upon physical delivery of the goods to the customer, transfer of the goods to the customers nominated couriers.
- the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the Group, and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

The Group is involved in rendering services which include servicing, maintenance, consultancy, bespoke assembly and installation activities. When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of the transaction is deemed to be able to be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the entity
- the stage of completion of the transaction at the year end can be measured reliably and can be estimated by reference to the proportion of time required to complete the service and be accepted by the customer, and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Where a contract for goods or services involves delivery of several different elements and is not fully delivered or performed by the year end, revenue is recognised based on the proportion of the fair value of the elements completed to the fair value of the overall contract. Servicing, maintenance and consultancy revenue is generally recognised on the date of delivery of the service.

Rental income

Rental income received for assets leased to third parties is recognised in the statement of comprehensive income across the lease term. Lease incentives are spread over the term of the lease.

Interest

Interest is recognised using the effective interest method which calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Royalties

Royalties are recognised on an accruals basis in accordance with the substance of the relevant agreement.

Royalty income is generally based upon a percentage of revenue of specific product within the licensee's portfolio. Income is recognised within the corresponding period within which the licensee's revenue was generated where this information is available. In the absence of revenue information from a licensee a best estimate is used as the basis of estimation. Royalty income in 2009 is entirely based upon information provided by the licensee and no estimates were required.

Dividends

Dividends are recognised when the shareholders right to receive payment is established.

INTANGIBLE ASSETS

Internally generated intangible assets are amortised on a straight-line basis over their useful lives.

Research and development

Expenditure on research is recognised as an expense in the period in which it is incurred.

Development costs are capitalised when all the following conditions are satisfied:

- completion of the intangible asset is technically feasible so that it will be available for use or sale
- the Group intends to complete the intangible asset and use or sell it
- the Group has the ability to use or sell the intangible asset
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the expenditure attributable to the intangible asset during its development can be measured reliably

Development costs not meeting the criteria for capitalisation are expensed in the period in which they are incurred. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Until completion of the development project, the assets are subject to impairment testing only. Amortisation commences upon completion of the asset, and is shown within 'Recurring Administrative Expenses' on the consolidated statement of comprehensive income.

Capitalised development costs are amortised over a period of five years.

Assets acquired as part of a business combination
In accordance with IFRS 3 Business Combinations, an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group.

PROPERTY, PLANT AND EQUIPMENT

Depreciation
Property, plant and equipment are stated at cost or valuation, net of depreciation and any provision for impairment. Leasehold equipment is included in property, plant and equipment only where it is held under a finance lease. No depreciation is charged during the period of construction.

Depreciation is provided on all property, plant and equipment at rates calculated to write off their cost less estimated residual value over their expected useful lives on a straight line basis, as follows:-

Property	3 to 20 years
Plant and Equipment	3 to 20 years
Fixtures and Fittings	5 to 10 years
Motor vehicles	4 years

Residual value and useful lives are reviewed at least annually.

Disposal of assets
The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income.

IMPAIRMENT TESTING OF GOODWILL, OTHER INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT
For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the directors monitor the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill, other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro-rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently re-assessed for indications that an impairment loss previously recognised may no longer exist.

LEASED ASSETS
In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the statement of comprehensive income over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the statement of comprehensive income on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

INVENTORIES
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 based upon normal levels of activity.

TAXATION
Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the date of the statement of financial position.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the statement of comprehensive income, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

FINANCIAL ASSETS
Financial assets held by the group comprise loans and receivables. Financial assets are assigned to category by management on initial recognition, depending on the purpose for which they were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are recognised at fair value plus transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables, cash and cash equivalents are classified as loans and receivables.

Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the statement of comprehensive income.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.
An assessment for impairment is undertaken at least at each date of statement of financial position. A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for derecognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for derecognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

Investments in the parent company accounts are initially measured at cost less impairment charges. Impairment is reviewed on an annual basis.

FINANCIAL LIABILITIES

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance charges in the statement of comprehensive income. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the statement of comprehensive income on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financial liabilities are initially recorded at fair value and then subsequently measured at amortised cost.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, demand deposits and highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

EQUITY

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares net of expenses of the share issue
- "Share options reserve" represents equity-settled share-based employee remuneration until such share options are exercised
- "Translation reserve" represents the differences arising from translation of investments in overseas subsidiaries
- "Retained losses" represents retained losses.

CAPITAL MANAGEMENT

The Group manages its Equity as capital. Equity comprises the items detailed within the principal accounting policy for equity and financial details can be found in the consolidated statement of financial position. The Group adheres to the capital maintenance requirements as set out in the Companies Act.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the date of the statement of financial position. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the profit or loss in the period in which they arise.

The assets and liabilities in the financial statements of foreign subsidiaries and related goodwill are translated at the rate of exchange ruling at the date of the statement of financial position. Income and expenses are translated at the average monthly rate. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to the "Translation reserve" in equity.

PENSIONS

The Group makes payments to defined contribution schemes. Contributions to the defined contribution pension schemes are charged to statement of comprehensive income in the year in which they become payable.

SHARE-BASED PAYMENT

Equity settled share-based payment

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions.

All equity-settled share-based payments are ultimately recognised as an expense in the statement of comprehensive income with a corresponding credit to "share options reserve".

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of the attributable transaction costs are credited to share capital, and where appropriate share premium.

EMPLOYEE BENEFIT TRUST

The assets and liabilities of the Employee Benefit Trust (EBT) have been included in the Group accounts. Any assets held by the EBT cease to be recognised in the consolidated statement of financial position when the assets vest unconditionally in identified beneficiaries.

The costs of purchasing own shares held by the EBT are shown as a deduction against equity. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the consolidated statement of comprehensive income.

CRITICAL ACCOUNTING JUDGEMENTS

Areas where the directors believe critical accounting judgement is required are:-

Evaluation of levels of control and influence

The determination of level of influence the Group has over a business is often a mix of contractually defined and subjective factors that can be critical to the appropriate accounting treatment of entities in the consolidated accounts. In the case of Biotec, the Group's shareholding in Biotec is 50%. However until 31 December 2009 the Group retained a casting vote over all material decisions and so Biotec is accounted for as a subsidiary in these financial statements on the basis of control. This casting vote expired on 31 December 2009 and from 1 January 2010 Biotec will cease to be fully consolidated.

Capitalisation of development costs

In determining whether development costs should be capitalised it needs to be established, inter alia, whether completion of the intangible asset is technically feasible, whether the intangible asset will generate probable future economic benefits and whether there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset. Development costs are capitalised if they meet these conditions and the other less subjective conditions detailed in "Research and development" section of the accounting policies.

Leasing

The group has a number of lease agreements. These agreements are classified and treated as either operating leases or finance leases, as defined under IAS17.

Finance leases are those where the terms of the lease substantially transfer the risks and rewards incidental to ownership of an asset. Finance leases are recognised on the statement of financial position as an asset and a liability.
Operating leases are leases other than finance leases with the expense recognised in the statement of comprehensive income over the time period the asset is used.

Plant and machinery which has been subject to a sale and leaseback transaction has been classified as finance leases within the Group accounts in accordance with this policy.

Intragroup balances

Intragroup balances and loans are all determined to be current and immediately repayable upon demand. Therefore, the balances are not classified as permanent as equity and foreign exchange differences related to them are recognised in the statement of comprehensive income.

KEY SOURCES OF ACCOUNTING ESTIMATE

Goodwill and Investments

The directors make an assessment of the carrying value of goodwill and investments at least annually. For the purposes of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill and investments are allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows. Discussion of assumptions and sensitivities is included in Note 7 to these financial statements.

Goodwill and investments, other individual assets or cash-generating units that include goodwill, other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Provisions

Within the Group there are a number of short term provisions. The carrying amount of the provisions is estimated based on the estimated net realisable value of inventories, recoverability of debtors and other likely costs.

Inventories

Initial measurement of inventories is at cost. Subsequent to initial recognition the group measures inventories at the lower of cost or net realisable value. Impairment losses are recognised as and when they occur. The write down is determined on an item by item basis or based on a group of items where such an assessment is not practical. In accordance with this policy during the year certain slow moving stock items were impaired by a value of £55,000 below their initial cost with the impairment expensed to the consolidated statement of comprehensive income.

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 £'000	2008 £'000
REVENUE	1a – 1d, 2	**17,911**	14,803
Cost of sales	10	**(14,263)**	(11,976)
GROSS PROFIT		**3,648**	2,827
Recurring administrative expenses	3a – 3b, 5	**(6,251)**	(5,628)
LOSS FROM OPERATIONS		**(2,603)**	(2,801)
Investment revenue		**33**	371
Finance charges	4	**(167)**	(242)
Foreign exchange (loss)/gain		**(815)**	2,205
LOSS BEFORE TAXATION		**(3,552)**	(467)
Taxation	6a	**100**	169
LOSS FOR THE YEAR		**(3,452)**	(298)
Other comprehensive income:			
Exchange differences on translating foreign operations		**(562)**	1,742
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(4,014)**	1,444
Loss for the year attributable to:			
Equity holders of the parent		**(3,195)**	139
Minority interest		**(257)**	(437)
LOSS FOR THE YEAR		**(3,452)**	(298)
Total comprehensive (loss)/income for the year attributable to:			
Equity holders of the parent		**(3,415)**	1,482
Minority interest		**(599)**	(38)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(4,014)**	1,444
Basic (loss)/earnings per share – pence		**(0.104)**	0.005
Diluted earnings per share – pence		**n/a**	0.005

The calculation of earnings per share is based on the loss attributable to the equity holders of the parent for the year of £3,195,000 (2008: profit of £139,000) and a weighted average of 3,078,340,917 (2008: 3,049,093,286) ordinary shares in issue.

Basic and diluted earnings per share are equal in 2008 as all outstanding share options were out of the money for the purposes of the diluted earnings per share calculation.

Details of share options which could potentially dilute basic earnings per share in future periods are given in Note 18.

Consolidated statement of financial position

AS AT 31 DECEMBER 2009

	Note	2009 £'000	2009 £'000	2008 £'000	2008 £'000
NON-CURRENT ASSETS					
Goodwill	7	**15,426**		16,746	
Other intangible assets	7	**848**		501	
Property, plant and equipment	8a	**4,105**		5,120	
			20,379		22,367
CURRENT ASSETS					
Inventories	10	**2,558**		2,502	
Trade and other receivables	11a	**2,930**		2,157	
Cash and cash equivalents		**3,219**		6,381	
			8,707		11,040
TOTAL ASSETS			**29,086**		33,407
CURRENT LIABILITIES					
Trade and other payables	12a	**2,303**		1,816	
Promissory notes	14	**6,999**		7,543	
Obligations under finance lease	15	**297**		294	
			9,599		9,653
NON-CURRENT LIABILITIES					
Obligations under finance lease	15	**529**		899	
			529		899
TOTAL LIABILITIES			**10,128**		10,552
NET ASSETS			**18,958**		22,855

Consolidated statement of financial position continued

AS AT 31 DECEMBER 2009

	Note	2009 £'000	2008 £'000
EQUITY			
Share capital	17	**3,078**	3,078
Share premium account		**38,623**	38,623
Share options reserve	18	**611**	494
Translation reserves		**1,225**	1,445
Retained losses		**(28,112)**	(24,917)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**15,425**	18,723
Minority interest		**3,533**	4,132
TOTAL EQUITY		**18,958**	22,855

The financial statements were approved by the Board on 28 April 2010.

Signed on behalf of the Board of Directors

Paul R Mines (Chief Executive)

Susan J Bygrave (Group Finance Director)

28 April 2010

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

Company statement of financial position

AS AT 31 DECEMBER 2009

	Note	2009 £'000	2009 £'000	2008 £'000	2008 £'000
NON-CURRENT ASSETS					
Property, plant and equipment	8b	**24**		24	
Investment in subsidiary undertakings	9	**4,250**		4,250	
			4,274		4,274
CURRENT ASSETS					
Trade and other receivables	11b	**445**		577	
Amounts owed by subsidiary undertakings	27	**12,547**		15,521	
Cash and cash equivalents		**2,717**		4,929	
			15,709		21,027
TOTAL ASSETS			**19,983**		25,301
CURRENT LIABILITIES					
Trade and other payables	12b	**863**		1,031	
Amounts due to subsidiary undertakings	27	**538**		434	
			1,401		1,465
NON-CURRENT LIABILITIES			**—**		—
TOTAL LIABILITIES			**1,401**		1,465
NET ASSETS			**18,582**		23,836

Company statement of financial position continued

AS AT 31 DECEMBER 2009

	Note	2009 £'000	2008 £'000
EQUITY			
Share capital	17	**3,078**	3,078
Share premium account		**37,895**	37,895
Share options reserve	18	**416**	300
Retained losses		**(22,807)**	(17,437)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**18,582**	23,836

The financial statements were approved by the Board on 28 April 2010.

Signed on behalf of the Board of Directors

Paul R Mines (Chief Executive)

Susan J Bygrave (Group Finance Director)

28 April 2010

Company registration number 1873702

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

Consolidated statement of changes in equity

AS AT 31 DECEMBER 2009

	Share capital £'000	Share premium account £'000	Share options reserve £'000	Translation reserves £'000	Retained losses £'000	Total equity attributable to equity holders of the parent £'000	Minority interest £'000	TOTAL EQUITY £'000
Balance at 1 January 2009	3,078	38,623	494	1,445	(24,917)	18,723	4,132	22,855
Share options charges in year	—	—	117	—	—	117	—	117
Transaction with owners	—	—	117	—	—	117	—	117
Loss for the year	—	—	—	—	(3,195)	(3,195)	(257)	(3,452)
Other comprehensive income: Exchange differences on translation of foreign operations	—	—	—	(220)	—	(220)	(342)	(562)
Total comprehensive income for the year	—	—	—	(220)	(3,195)	(3,415)	(599)	(4,014)
Balance at 31 December 2009	3,078	38,623	611	1,225	(28,112)	15,425	3,533	18,958
Balance at 1 January 2008	3,012	38,199	883	102	(25,056)	17,140	4,170	21,310
Share options credits in year	—	—	(389)	—	—	(389)	—	(389)
Issue of share capital	66	424	—	—	—	490	—	490
Transaction with owners	66	424	(389)	—	—	101	—	101
Loss for the year	—	—	—	—	139	139	(437)	(298)
Other comprehensive income: Exchange differences on translation of foreign operations	—	—	—	1,343	—	1,343	399	1,742
Total comprehensive income for the year	—	—	—	1,343	139	1,482	(38)	1,444
Balance at 31 December 2008	3,078	38,623	494	1,445	(24,917)	18,723	4,132	22,855

Company statement of changes in equity

AS AT 31 DECEMBER 2009

	Share capital £'000	Share premium £'000	Share options reserve £'000	Retained losses £'000	Total equity £'000
Balance at 1 January 2009	3,078	37,895	300	(17,437)	23,836
Share options charges in year	—	—	116	—	116
Transaction with owners	—	—	116	—	116
Loss for the year	—	—	—	(5,370)	(5,370)
Total comprehensive income for the year	—	—	—	(5,370)	(5,370)
Balance at 31 December 2009	3,078	37,895	416	(22,807)	18,582
Balance at 1 January 2008	3,012	37,479	663	(17,487)	23,667
Share options credits in year	—	—	(363)	—	(363)
Issue of share capital	66	416	—	—	482
Transaction with owners	66	416	(363)	—	119
Profit for the year	—	—	—	50	50
Total comprehensive income for the year	—	—	—	50	50
Balance at 31 December 2008	3,078	37,895	300	(17,437)	23,836

Consolidated statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009	2008
	£'000	£'000
Loss after tax	**(3,452)**	(298)
Adjustment for:-		
Taxation	**(100)**	(169)
Foreign exchange loss/(gain)	**815**	(2,205)
Finance charges	**167**	242
Investment revenue	**(33)**	(371)
Loss from operations	**(2,603)**	(2,801)
Adjustment for:-		
Amortisation and impairment of intangible assets	**78**	148
Depreciation of property, plant and equipment	**702**	681
Share based payments	**117**	(389)
(Profit)/loss on disposal of property, plant and equipment	**(2)**	2
Decrease in provisions	**—**	(441)
Foreign exchange (loss)/gain	**(88)**	81
Operating cash flows before movement in working capital	**(1,796)**	(2,719)
(Increase)/decrease in inventories	**(190)**	4,956
(Increase)/decrease in receivables	**(865)**	12
Increase/(decrease) in payables	**532**	(3,612)
Cash utilised by operations	**(2,319)**	(1,363)
Corporation tax received	**100**	169
Interest paid	**(99)**	(160)
Net cash outflow from operating activities	**(2,318)**	(1,354)
Investing activities		
Interest received	**33**	371
Proceeds on disposal of property, plant and equipment	**2**	2
Investment in intangible assets	**(432)**	(416)
Purchase of property, plant and equipment	**(69)**	(307)
Settlement of deferred consideration	**—**	(487)
Net cash used in investing activities	**(466)**	(837)
Financing activities		
Repayment of obligations under finance lease	**(270)**	(219)
Proceeds of issue of ordinary share capital	**—**	482
Net cash from financing activities	**(270)**	263
Net decrease in cash and cash equivalents	**(3,054)**	(1,928)
Cash and cash equivalents at beginning of year	**6,381**	8,059
Effect of foreign exchange rate changes	**(108)**	250
Cash and cash equivalents at end of year	**3,219**	6,381

Company statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009	2008
	£'000	£'000
(Loss)/profit after tax	(5,370)	50
Adjustment for:-		
Taxation	—	(11)
Foreign exchange loss/(gain)	618	(1,889)
Finance charges	—	260
Intergroup impairment charge	3,000	—
Investment revenue	(92)	(407)
Loss from operations	(1,844)	(1,997)
Adjustment for:-		
Depreciation of property, plant and equipment	5	3
Share based payments	116	(363)
Foreign Exchange	—	61
Operating cash flows before movement in working capital	(1,723)	(2,296)
Increase in inventories	—	143
Increase in receivables	(341)	(547)
Decrease in payables	(166)	(114)
Cash utilised by operations	(2,230)	(2,814)
Tax received	—	11
Interest paid	(1)	(1)
Net cash outflow from operating activities	(2,231)	(2,804)
Investing activities		
Interest received	24	347
Purchase of property, plant and equipment	(5)	(147)
Settlement of deferred consideration	—	(487)
Net cash used in investing activities	19	(287)
Financing activities		
Proceeds of issue of ordinary share capital	—	482
Net cash from financing activities	—	482
Decrease in cash and cash equivalents	(2,212)	(2,609)
Cash and cash equivalents at beginning of year	4,929	7,538
Cash and cash equivalents at end of year	2,717	4,929

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

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2009

1a. SEGMENTAL INFORMATION BY BUSINESS ACTIVITY FOR THE YEAR ENDED 31 DECEMBER 2009

	BioPlastics 2009 £'000	RF Applications 2009 £'000	Central Costs 2009 £'000	Total 2009 £'000
Revenue from external customers	**16,590**	**1,321**	**—**	**17,911**
Depreciation/amortisation	(711)	(65)	(4)	(780)
Share based payments	—	(1)	(116)	(117)
(LOSS)/PROFIT FROM OPERATIONS	**(799)**	**40**	**(1,844)**	**(2,603)**
Investment revenue				33
Finance charges				(167)
Foreign exchange gain				(815)
LOSS BEFORE TAXATION				**(3,552)**
Taxation				100
LOSS FOR THE YEAR				**(3,452)**
CAPITAL EXPENDITURE				
Property, plant and equipment	64	—	5	**69**
Intangible assets	246	186	—	**432**
TOTAL ASSETS	24,601	1,299	3,186	**29,086**

1b. SEGMENTAL INFORMATION BY GEOGRAPHICAL REGION FOR THE YEAR ENDED 31 DECEMBER 2009

	Non-current assets 2009 £'000	Total assets 2009 £'000	Tangible assets Capital expenditure 2009 £'000	Intangible assets Capital expenditure 2009 £'000
Germany	18,839	23,041	60	—
UK	1,540	6,045	9	432
	20,379	**29,086**	**69**	**432**

	Revenue 2009 £'000
France	13,663
Finland	1,349
Other	2,899
	17,911

Revenue is attributed to individual countries based on the location of the customer.

1c. SEGMENTAL INFORMATION BY BUSINESS ACTIVITY FOR THE YEAR ENDED 31 DECEMBER 2008

	BioPlastics 2008 £'000	RF Applications 2008 £'000	Central Costs 2008 £'000	Total 2008 £'000
Revenue				
External sales	**13,728**	**1,075**	**—**	**14,803**
Depreciation/Amortisation	(708)	(118)	(3)	(829)
Share based payments	42	(24)	371	389
LOSS FROM OPERATIONS	**(844)**	**(15)**	**(1,942)**	**(2,801)**
Interest received				371
Finance charges				(242)
Foreign exchange gain				2,205
LOSS BEFORE TAXATION				**(467)**
Taxation				169
LOSS FOR THE YEAR				**(298)**
CAPITAL EXPENDITURE				
Property, plant and equipment	302	—	5	**307**
Intangible assets	190	226	—	**416**
ASSETS	27,087	1,075	5,245	**33,407**

1d. SEGMENTAL INFORMATION BY GEOGRAPHICAL REGION FOR THE YEAR ENDED 31 DECEMBER 2008

	Non-current assets 2008 £'000	Total assets 2008 £'000	Tangible assets Capital expenditure 2008 £'000	Intangible assets Capital expenditure 2008 £'000
Germany	21,158	25,194	160	17
UK	1,209	8,213	147	399
	22,367	**33,407**	**307**	**416**

1d. SEGMENTAL INFORMATION BY GEOGRAPHICAL REGION FOR THE YEAR ENDED 31 DECEMBER 2008 continued

	Revenue 2008 £'000
France	11,159
Finland	989
Other	2,655
	14,803

The Group is managed through its two divisions BioPlastics and RF Applications. The revenue presented relates to external customers. There are no sales between divisions. Sales to SPhere, who owns the other 50 per cent of Biotec, accounted for 76 per cent of the Group's sales for 2009 and are reported within the results of the BioPlastics division.

Revenue is attributed to individual countries based on the location of the customer.

2. REVENUE

	2009 £'000	2008 £'000
Sales of goods	**17,691**	14,286
Sales of services	**86**	69
Royalty income	**134**	448
	17,911	14,803

3a. RECURRING ADMINISTRATIVE EXPENSES

	2009 £'000	2008 £'000
Recurring administrative expenses include:		
Depreciation, amortisation and impairment:		
Other intangible fixed assets, owned	**78**	148
Property, plant and equipment, owned	**349**	366
Property, plant and equipment, leased	**353**	315
(Profit)/loss on disposal of property, plant and equipment	**(2)**	2
Auditors' remuneration	**73**	60
Hire of plant and machinery	**25**	3
Operating lease rentals: Land and buildings	**282**	282
Operating lease income: Land and buildings	**(217)**	(135)
Share based payments	**117**	(389)
Bad debt provision	**12**	53

3b. AUDITORS' REMUNERATION

	2009 Grant Thornton UK LLP £'000	2008 Grant Thornton UK LLP £'000
Audit of the parent company	21	22
Audit of subsidiaries of company pursuant to legislation	15	15
Non audit services:		
Other services pursuant to legislation	5	15
Taxation services	32	8
Total	73	60

4. FINANCE CHARGES

	2009 £'000	2008 £'000
Finance leases	96	108
Other interest	3	52
Interest on promissory notes	68	61
Finance charge on deferred consideration	—	21
	167	242

5. **DIRECTORS AND EMPLOYEES**

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

	Group		Company	
	2009	2008	**2009**	2008
	Number	Number	**Number**	Number
Management	**11**	12	**5**	5
Administration	**11**	11	**3**	2
Sales	**4**	5	**—**	—
Manufacturing and engineering	**21**	20	**—**	—
	47	48	**8**	7
	£'000	£'000	**£'000**	£'000
Staff costs:				
Wages and salaries	**2,398**	2,151	**710**	635
Social security costs	**354**	319	**84**	76
Pension costs – personal pension contribution	**74**	69	**41**	31
	2,826	2,539	**835**	742
Directors' remuneration				
Emoluments	**463**	528	**463**	528
Pension costs – personal pension contributions	**30**	28	**30**	28
	493	556	**493**	556

The Group has identified key management personnel as the executive directors.

A detailed breakdown of directors' emoluments is contained in the directors' Remuneration Report.

Share options charges related to executive directors included within administrative expenses relating to key personnel is a charge of (£55,000) (2008: negative charge of £91,000). The negative charge in 2008 included a writeback of £144,000 related to the lapse of share option agreements for a departing director.

6a. **TAXATION**

Analysis of charge in year

	Group	
	2009	2008
	£'000	£'000
Current income tax		
Current income tax charge/(credit)	**4**	(4)
Adjustments in respect of prior periods:	**(104)**	(165)
Total current income tax (note 8b)	**(100)**	(169)
UK Corporation tax	**(104)**	(165)
Overseas Corporation tax	**4**	(4)
Total Consolidated Corporation tax credit	**(100)**	(169)

6b. **TAXATION**

Factors affecting tax charge for year

	Group	
	2009	2008
	£'000	£'000
Loss on ordinary activities before taxation	**(3,552)**	(467)
Tax thereon at UK statutory income tax rate 28.0% (2008: 28.5%)	**(995)**	(133)
Expenses not deductible for tax purposes	**46**	18
Additional deduction for research and development expenditure	**(4)**	(9)
Income not taxable for tax purposes	**—**	(71)
Unrelieved tax losses and other deductions	**962**	221
Utilisation of tax losses	**(19)**	—
Capital Allowance in the period in excess of depreciation	**10**	(8)
Adjustment in respect of prior periods	**(104)**	(183)
Total UK Corporation Tax	**(104)**	(165)
Overseas corporation tax	**4**	(4)
Tax credit for the year	**(100)**	(169)

The Group has estimated trading losses of £22,195,840 (2008: £19,589,548) available for carry forward against future trading profits. The Company has estimated trading losses of £8,836,790 (2008: £6,770,194) available for carry forward against future trading profits. The Group had capital losses of £1,513,277 (2008: £1,513,277).

7. **GOODWILL AND OTHER INTANGIBLE ASSETS**

	Goodwill relating to Aquasol	Goodwill relating to Biotec GmbH	Other intangible assets	Total
	£'000	£'000	£'000	£'000
Group				
Cost:				
At 1 January 2008	1,991	12,324	7,024	21,339
Exchange differences	—	4,021	17	4,038
Additions	—	—	416	416
At 1 January 2009	1,991	16,345	7,457	25,793
Exchange differences	—	(1,320)	(7)	(1,327)
Additions	—	—	432	432
At 31 December 2009	**1,991**	**15,025**	**7,882**	**24,898**
Accumulated amortisation and impairment:				
At 1 January 2008	1,590	—	6,808	8,398
Provided in the year - charge for the year	—	—	148	148
At 1 January 2009	1,590	—	6,956	8,546
Provided in the year - charge for the year		—	78	78
At 31 December 2009	**1,590**	**—**	**7,034**	**8,624**
Net book value:				
At 31 December 2009	**401**	**15,025**	**848**	**16,274**
At 31 December 2008	**401**	**16,345**	**501**	**17,247**

7. **GOODWILL AND OTHER INTANGIBLE ASSETS** continued

Goodwill has been allocated to the specific Cash Generating Units (CGU) to which it relates. It is then added to the related net assets of that CGU. The total is compared to the recoverable amount of the CGU, which is calculated on the basis of value in use. Value in use is calculated using a Discounted Cash Flow forecast (DCF) model.

The discount rate used in the DCF model is 12.25% (2008: 12.25%). This represents Stanelco's cost of equity and in the absence of debt is the Weighted Average Cost of Capital for the Group. The cash flows are projected over a period of 5 years with a terminal value calculated as a multiple of the fifth year's free cash flow. A multiple of 8 has been used in the DCF models for both Aquasol and Biotec. The cash flows, discount rate and multiplier are considered appropriate by the directors having regard to Stanelco recent and projected performance and input from external advisors of the group. The Aquasol DCF model includes patent royalties with no expenses. The Biotec DCF model is based upon a detailed forecast of revenue and expenses. Biotec's forecast sales growth would have to decrease by 21.6% or the gross margin achievable would have to decrease by 9.4% before an impairment would be required.

Including related net assets the relevant asset value of Aquasol is £401,000 and Biotec £18,839,000. The value in use calculated using DCF exceeds the relevant asset value for both Aquasol and Biotec. The sensitivity of the assumptions has also been checked to ensure that the environment would have to be substantially changed before impairment is required. In the case of Aquasol the multiplier would have to reduce by 6.8 or the discount rate increased to 35% before impairment is required. Biotec's multiplier would have to reduce by 2.8 or the discount rate increased to 19.7% to require impairment. The value in use exceeds the relevant asset value for Aquasol by £480,000 and for Biotec by £6,421,000.

Other Intangible Assets comprise £798,000 (2008: £419,000) of capitalised development costs and £50,000 (2008: £82,000) of software licenses. The remaining amortisation period on the £848,000 of other intangible assets at 31 December 2008 is a weighted average of 4.7 years (2008: 4.7 years).

Of the £798,000 of capitalised development costs, £419,000 relates to BioPlastics and £379,000 to RF Applications.

8a. **PROPERTY, PLANT AND EQUIPMENT** Group

	Land, buildings and leasehold improvements	Plant and equipment	Fixtures and fittings	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost:					
At 1 January 2008	2,136	2,909	265	20	5,330
Exchange differences	609	1,163	—	—	1,772
Additions	79	228	—	—	307
Disposals	—	—	(32)	(20)	(52)
At 1 January 2009	2,824	4,300	233	—	7,357
Exchange differences	(114)	(218)	—	—	(332)
Additions	—	55	—	14	69
Disposals	—	—	—	—	—
At 31 December 2009	2,710	4,137	233	14	7,094
Depreciation:					
At 1 January 2008	121	653	183	9	966
Exchange differences	76	548	—	—	624
Provided in the year	91	567	21	2	681
Disposals	—	—	(23)	(11)	(34)
At 1 January 2009	288	1,768	181	—	2,237
Exchange differences	8	42	—	—	50
Provided in the year	109	578	12	3	702
Disposals	—	—	—	—	—
At 31 December 2009	405	2,388	193	3	2,989
Net book value:					
31 December 2009	**2,305**	**1,749**	**40**	**11**	**4,105**
Net book value:					
31 December 2008	2,536	2,532	52	—	5,120

8a. **PROPERTY, PLANT AND EQUIPMENT** Group continued

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

	Property, plant and equipment £'000
Net book values:	
At 31 December 2008*	1,202
At 31 December 2009	758
Depreciation charge for the year:	
31 December 2008	315
31 December 2009	353

*Includes foreign exchange translation loss of £91,000 (2008: gain £332,000).

8b. **PROPERTY, PLANT AND EQUIPMENT** Company

	Land, buildings and leasehold improvements £'000	Plant and equipment £'000	Fixtures fittings and equipment £'000	Motor vehicles £'000	Total £'000
Cost:					
At 1 January 2008	24	66	2	—	92
Additions	1	146			147
Disposals	—	—	(2)	—	(2)
Transfers*	—	(207)	—	—	(207)
At 1 January 2009	25	5	—	—	30
Additions	—	5	—	—	5
Disposals	—	—	—	—	—
At 31 December 2009	25	10	—	—	35
Depreciation:					
At 1 January 2008	2	25	2	—	29
Charge for year	4	15	—	—	19
Disposals	—	—	(2)	—	(2)
Transfers*	—	(40)	—	—	(40)
At 1 January 2009	6	—	—	—	6
Charge for year	3	2	—	—	5
Disposals	—	—	—	—	—
At 31 December 2009	9	2	—	—	11
Net book value:					
At 31 December 2009	**16**	**8**	**—**	**—**	**24**
At 31 December 2008	19	5	—	—	24

*Assets were transferred to Adept Polymers Ltd in 2008, a wholly owned subsidiary of Stanelco plc. Depreciation charges in 2008 for the assets not transferred amounted to £3,000.

9. **INVESTMENTS**

	Total
	£'000
Investment in subsidiary undertakings Company	
Cost:	
31 December 2008 and 31 December 2009	6,373
Diminuation in value:	
31 December 2008 and 31 December 2009	2,123
Net book value at 31 December 2009	**4,250**
Net book value at 31 December 2008	4,250

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 company statement of financial position. The investments relate to Aquasol and Biotec GmbH. Details of the impairment testing performed on goodwill relating to these CGU's can be found in Note 7.

9. **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 RF Technologies Limited	England and Wales	2 Ordinary £1 shares	100
InGel Technologies Limited	England and Wales	9,500 Ordinary "A" 1p shares	93.7
Adept Polymers Limited	England and Wales	2 Ordinary £1 shares	100
Aquasol Limited	England and Wales	29,000 Ordinary £1 shares	100
Stanelco Inc	USA	100 Ordinary shares $0.01	100
Biotec Holding GmbH	Germany	1 Ordinary Share of €25,000	50
bio-tec Biologische Naturverpackungen GmbH & Co. KG	Germany	1 Ordinary Share of €51,200 (Held by Bio-tec Holding GmbH)	50
bio-tec Biologische Naturverpackungen Forschungs-und Entwicklungs GmbH	Germany	1 Ordinary Share of €26,000 (Held by Bio-tec Holding GmbH)	50

Stanelco RF Technologies Limited is involved in the development, manufacture and supply of Radio Frequency applications equipment. InGel Technologies Limited is a development company. Adept Polymers Limited is a company that specialises in the formulation and manufacture and sale of Bioplastics. Aquasol Limited specialises in designing packaging solutions and has specific expertise in water soluble packaging. Stanelco Inc has been set up to promote the Group's activities and products in the USA. Biotec Holding GmbH Group was acquired in September 2005 and 50 per cent was disposed of to SPhere (formerly SP Metal) of France. Biotec is one of the world's leading exponents of starch technology and specialise in formulations for packaging, pharmaceutical and edible applications.

All companies are wholly owned by Stanelco PLC except for:

InGel Technologies Limited in which a 6.3 per cent shareholding is held by Cardinal Health 409 Incorporated (formerly R.P. Scherer Corporation). Biotec Holding GmbH in which a 50 per cent shareholding is held by SPhere. Until 31 Decemeber 2009, Stanelco retained a casting vote on material decisions relating to Biotec's business activities and Biotec has consequently been fully consolidated in the 2009 Group results. The casting vote expired on 31 December 2009 and from 1 January 2010 the Group will account for Biotec on a proportional basis.

10. **INVENTORIES**

	Group		Company	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Raw materials and consumables	700	834	—	—
Work in progress	94	103	—	—
Finished goods and goods for resale	1,764	1,565	—	—
Total	**2,558**	2,502	—	—

10. **INVENTORIES** continued

Cost of sales in the consolidated statement of comprehensive income relates to the cost of goods sold and includes direct production labour costs for goods produced at Biotec GmbH but not goods produced at Stanelco RF Technologies Ltd.

At 31 December 2008 RF stock with a purchase cost of £1,758,000 had been impaired down to a value of £257,000; during 2009 £37,000 of this stock has been sold or scrapped and the remainder has been impaired by a further £55,000.

11a. **TRADE AND OTHER RECEIVABLES** Group

	2009 **£'000**	2008 £'000
Trade receivables	**1,995**	1,419
Other receivables	**288**	257
Prepayments and accrued income	**647**	481
Total	**2,930**	2,157

An allowance has been made for estimated irrecoverable amounts from the sale of goods of £52,000 including £40,000 of the 2008 allowance. This allowance has been determined by reference to past default experience. The directors consider that the carrying amount of trade and other receivables approximates their fair value.

The average credit period taken on the sale of goods is 41 days. Before accepting any new customer, the Group uses external credit scoring systems to assess the potential customer's credit quality and define credit limits per customer. Of the trade receivables balance, all debts comprising 5 per cent or more of the trade receivables balance had been collected at the reporting date.

Ageing of past due but not impaired receivables is as follows

	2009 **£'000**	2008 £'000
60 - 90 days	**126**	48
90 - 120	**26**	—
120 +	**53**	34
Total	**205**	82

11a. TRADE AND OTHER RECEIVABLES Group continued

Movement in allowance for doubtful debts:

	2009 £'000	2008 £'000
Balance at the beginning of the period	61	57
Amounts written off as uncollectible	(16)	(49)
Amounts received	(5)	—
Impairment losses recognised	12	53
Total	52	61

In determining the recoverability of a trade receivable the directors consider any changes in the credit quality of the trade receivable from the date credit was initially granted to the reporting date. The concentration of credit risk is limited to the customer base being large and unrelated. Accordingly, the directors believe that there is no further provision required in excess of the allowance for doubtful debts.

Ageing of impaired receivables is as follows:

	2009 £'000	2008 £'000
120 + days	52	61
Total	52	61

11b. TRADE AND OTHER RECEIVABLES Company

	2009 £'000	2008 £'000
Trade receivables	32	72
Other receivables	137	172
Prepayments and accrued income	276	333
Total	445	577

Details of the intragroup receivables can be found in Note 27.

11b. **TRADE AND OTHER RECEIVABLES** Company continued

Ageing of past due but not impaired receivables is as follows:

	2009	2008
	£'000	£'000
90 - 120	**—**	—
120 +	**—**	—
Total	**—**	—

Movement in allowance for doubtful debts:

	2009	2008
	£'000	£'000
Balance at the beginning of the period	**3**	6
Provided in the year	**—**	—
Provision transferred to subsidiary	**—**	(3)
Total	**3**	3

In determining the recoverability of a trade receivable the directors considers any changes in the credit quality of the trade receivable from the date credit was initially granted to the reporting date. The concentration of credit risk is limited to the customer base being large and unrelated. Accordingly, the directors believe that there is no further provision required in excess of the allowance for doubtful debts.

Ageing of impaired receivables is as follows:-

	2009	2008
	£'000	£'000
120+	**3**	3
Total	**3**	3

12a. TRADE AND OTHER PAYABLES Group

	2009 £'000	2008 £'000
Trade payables	**1,229**	690
Other taxation and social security costs	**32**	31
Other creditors	**247**	242
Accruals and deferred income	**795**	853
Total	**2,303**	1,816

12b. TRADE AND OTHER PAYABLES Company

	2009 £'000	2008 £'000
Trade payables	**174**	285
Other taxation and social security costs	**45**	34
Other creditors	**122**	107
Accruals and deferred income	**522**	605
Total	**863**	1,031

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 27 days. For all suppliers, no interest is charged if the trade payable exceeds the credit period.

The carrying amount of all trade and other payables is a reasonable approximation of fair value.

Details of the intragroup payables can be found in Note 27.

13. **FINANCIAL INSTRUMENTS**

The Group manages its capital to ensure the entities in the Group are able to continue as going concerns whilst maximising the return to stakeholders through appropriate optimisation of the debt to equity balance. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent. Equity comprises issued share capital, reserves and retained losses as disclosed in the consolidated statement of changes in equity.

Categories of financial instruments

	Group		Company	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Financial assets				
Loans and receivables	**5,502**	8,057	**15,433**	20,694
Financial liabilities recorded at amortised cost				
Trade and other payables	**1,476**	932	**834**	826
Borrowings (promissory notes)	**6,999**	7,543	**—**	—

The Group's treasury function provides services to the business, co-ordinates access to domestic and international financial markets and monitors and manages financial risk relating to the operations of the Group.

Net foreign currency monetary assets

	Group		Company	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Euros	**324**	1,616	**47**	285
US Dollars	**36**	65	**36**	65

All of the Group and Companies financial instruments are considered to be held at an approximation to fair value.

13. FINANCIAL INSTRUMENTS continued

Maturity of financial liabilities

Contractual undiscounted cash flows in respect of financial liabilities are as follows:

Group

2009	0-60 days £'000	61 days - 6 months £'000	7 months - 1 year £'000	13 months - 2 years £'000	2-5 years £'000	Total £'000
Trade and other payables	1,476	—	—	—	—	1,476
Borrowings (promissory notes)	6,999	—	—	—	—	6,999
Finance leases	61	122	182	365	202	932
Total	**8,536**	**122**	**182**	**365**	**202**	**9,407**

2008	0-60 days £'000	61 days - 6 months £'000	7 months - 1 year £'000	13 months - 2 years £'000	2-5 years £'000	Total £'000
Trade and other payables	932	—	—	—	—	**932**
Borrowings (promissory notes)	7,543	—	—	—	—	**7,543**
Finance leases	66	132	199	397	617	**1,411**
Total	**8,541**	**132**	**199**	**397**	**617**	**9,886**

Company

2009	0-60 days £'000	61 days - 6 months £'000	7 months - 1 year £'000	13 months - 2 years £'000	2-5 years £'000	Total £'000
Trade and other payables	834	—	—	—	—	834
Total	**834**	**—**	**—**	**—**	**—**	**834**

2008	0-60 days £'000	61 days - 6 months £'000	7 months - 1 year £'000	13 months - 2 years £'000	2-5 years £'000	Total £'000
Trade and other payables	826	—	—	—	—	**826**
Total	**826**	**—**	**—**	**—**	**—**	**826**

14. PROMISSORY NOTES

Group

Promissory notes are amounts due from companies in the 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 per cent and are repayable on demand.

The promissory notes are denominated in Euro's and appreciate and depreciate with fluctuations between the Euro and Sterling accordingly.

15. OBLIGATIONS UNDER FINANCE LEASES Group

Obligations under finance leases

	2009 £'000	2008 £'000
Within one year	**365**	397
In the second to fifth years	**567**	1,014
Minimum lease payments	**932**	1,411
Interest to be charged	**(106)**	(218)
Present value of minimum lease payments	**826**	**1,193**
Current liabilities	297	294
Non-current liabilities	529	899
Total	**826**	**1,193**

The average lease terms is five years. For the year ended 31 December 2009 the effective borrowing rate was 12.25 per cent (2008: 12.25 per cent).

There are no finance leases in the parent company.

16a. PROVISIONS FOR LIABILITIES Group

	Total provisions £'000
At 1 January 2008	441
Utilised in the year	(441)
Provided in year	—
At 31 December 2008	—
At 1 January 2009	—
Utilised in the year	—
Provided in year	—
At 31 December 2009	—

16b. PROVISIONS FOR LIABILITIES Company

At 1 January 2008	416
Utilised in year	(416)
Provided in year	—
At 31 December 2008	—
At 1 January 2009	—
Utilised in year	—
Provided in year	—
At 31 December 2009	—

At 1 January 2008 provisions material in nature to both Group and Company were £170,000 of provision against costs associated with vacant premises and £112,000 against costs associated with legal claims and disputes.

17. SHARE CAPITAL

	2009 £'000	2008 £'000
Group and Company		
Authorised: Ordinary shares of 0.1p each		
4,000,000,000 (2008: 4,000,000,000)	**4,000**	4,000
Allotted, issued and fully paid: Ordinary shares of 0.1p each		
At 1 January: 3,078,340,917 (2008: 3,011,852,513)	**3,078**	3,012
Issued in the year: Nil (2008: 66,488,404)	—	66
At 31 December: 3,078,340,917 (2008: 3,078,340,917)	**3,078**	3,078

All ordinary shares carry equal participation in assets, rights to dividends and voting power.

17. **SHARE CAPITAL** continued

Transaction costs deducted directly from equity in 2009 were £Nil (2008: £4,000).

18. **SHARE OPTIONS RESERVE**

	Group		Company	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Opening balance	**494**	883	**300**	663
Income and expenditure charge for the year in respect of the fair value of share based payments under share option awards	**117**	(389)	**116**	(363)
Closing balance	**611**	494	**416**	300

Under International Financial Reporting Standard No. 2: Share Based Payments (IFRS 2) the fair value of share based payments are expensed in the statement of comprehensive income throughout their vesting period. In accordance with IFRS 2, the fair value calculations have only been applied in respect of share based payment transactions granted after 7 November 2002 that had not vested by 1 November 2005.

Share option award schemes

The Group operates various equity-settled share option schemes (the "Schemes") for certain employees. The awards outstanding can be summarised as follows:

	2009 Number of ordinary shares	2008 Number of ordinary shares
Scheme		
Enterprise Management Incentive Schemes (EMI)	**8,797,223**	8,797,223
Stand alone unapproved share options	**26,609,492**	26,609,492
Stanelco plc 2005 Unapproved Share Option Plan and Stanelco plc Employment Benefit Trust (2005 USOP)	**394,656,791**	236,132,200
Total	**430,063,506**	271,538,915

Share schemes

The EMI share option scheme is a HM Revenue and Customs approved scheme. Options are granted by the Board to employees of the company and UK subsidiaries at an exercise price equal to the market price at the date of grant. The options have a three year vesting period and can be exercised from commencement of the third anniversary and expiring ten years from the date of grant. Stand alone unapproved share options are granted to specific employees. Vesting and exercise terms are the same as those of the EMI scheme. The 2005 USOP scheme provides for the grant of options to executives and employees and Trustees of the Stanelco plc Employment Benefit Trust. Options are granted at an exercise price based on the market value on the date of grant. Options have a three year vesting period and can be exercised from the commencement of the third anniversary and expiring ten years from the date of grant. Performance conditions restrict the number of shares excercisable, further details can be found in the Director's remuneration report on pages 23 to 26 of this Report.

18. **SHARE OPTIONS RESERVE** continued

Information for awards granted during the year

The weighted average fair value of share options granted during the year, as estimated at the date of grant, was £148,000 (2008: £144,000). This was calculated using the Black-Scholes share option pricing model.

Weighted average fair value assumptions

The following weighted average assumptions were used in these option pricing models:

	2009	**2008**
Exercise Price	**0.61p**	0.68p
Expected volatility	**118%**	118%
Expected life	**3.83yrs**	3.83yrs
Expected dividend	**Nil**	Nil
Risk-free interest rate	**2.61%**	4.59%
Market value of shares	**0.61p**	0.68p

Expected volatility was determined by calculating the historical volatility of the company's share price, over a period of 3 years prior to the date of grant.

	Stand alone options	**2005 USOP**	**EMI**
Balance outstanding at 1 January 2008	26,609,492	113,846,154	18,540,583
Granted	—	132,286,046	—
Lapsed	—	(10,000,000)	(9,743,360)
Balance outstanding at 31 December 2008	26,609,492	236,132,200	8,797,223
Exercise prices of options outstanding at the period end in the range	2.56p - 10.7p	0.43p - 0.8p	3.875p - 19p
Weighted average exercise price of options outstanding at the year end	3.645p	0.608p	8.08p
Weighted average contractual life in months of options outstanding at the year end	48	109	74
Exercisable at the year end	26,609,492	—	8,047,223
Weighted average exercise price of options currently exercisable at the year end	3.645p	n/a	7.69p

18. **SHARE OPTIONS RESERVE** continued

	Stand alone options	2005 USOP	EMI
Balance outstanding at 1 January 2009	26,609,492	236,132,200	8,797,223
Granted	—	158,524,591	—
Lapsed	—	—	—
Balance outstanding at 31 December 2009	26,609,492	394,656,791	8,797,223
Exercise prices of options outstanding at the period end in the range	2.56p - 10.7p	0.43p - 0.8p	3.875p - 19p
Weighted average exercise price of options outstanding at the year end	3.645p	0.608p	8.08p
Weighted average contractual life in months of options outstanding at the year end	36	103	62
Exercisable at the year end	26,609,492	—	8,797,223
Weighted average exercise price of options currently exercisable at the year end	3.645p	n/a	8.08p

The weighted average exercise prices of options granted, exercised and lapsed during the year in pence were:

Year ended 31 December 2008

pence	Stand alone options	2005 USOP	EMI
Options granted	—	0.68	—
Options exercised	—	—	—
Options lapsed	—	17	7.51

Year ended 31 December 2009

pence	Stand alone options	2005 USOP	EMI
Options granted	—	0.61	—
Options exercised	—	—	—
Options lapsed	—	—	—

The weighted average share price at the date of exercise of options during the year was:

pence	Stand alone options	2005 USOP	EMI
Year ended 31 December 2008	—	—	—
Year ended 31 December 2009	—	—	—

18. **SHARE OPTIONS RESERVE** continued

Outstanding share options by exercise price ranges	2009 Total	2009 Exercisable	2008 Total	2008 Exercisable
Stand alone options				
0.01p to <5p	**26,209,492**	**26,209,492**	26,209,492	26,209,492
5p to <10p	**—**	**—**	—	—
10p to <15p	**400,000**	**400,000**	400,000	400,000
15p to 19p	**—**	**—**	—	—
Total	**26,609,492**	**26,609,492**	26,609,492	26,609,492
2005 USOP				
0.01p to <5p	**394,656,791**	**—**	236,132,200	—
5p to <10p	**—**	**—**	—	—
10p to <15p	**—**	**—**	—	—
15p to 19p	**—**	**—**	—	—
Total	**394,656,791**	**—**	236,132,200	—
EMI				
0.01p to <5p	**5,072,223**	**5,072,223**	5,072,223	5,072,223
5p to <10p	**500,000**	**500,000**	500,000	500,000
10p to <15p	**1,500,000**	**1,500,000**	1,500,000	750,000
15p to 19p	**1,725,000**	**1,725,000**	1,725,000	1,725,000
Total	**8,797,223**	**8,797,223**	8,797,223	8,047,223

19. **PROFIT AND LOSS ACCOUNT** Company

	2009	2008
	£'000	£'000
Opening balance	**(17,437)**	(17,487)
Retained (loss)/profit for the period	**(5,370)**	50
Closing balance	**(22,807)**	(17,437)

In accordance with the concession granted under Section 408 Companies Act 2006, 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 £5,370,000 (2008: retained profit £50,000).

20. **CAPITAL COMMITMENTS**

The Group had no capital commitments at 31 December 2009 and 31 December 2008.

21a. **COMMITMENTS UNDER OPERATING LEASES – LESSEE**

At 31 December the Group and Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2009 £'000	2008 £'000
Land and buildings:		
Within one year	**282**	282
In the second to fifth years inclusive	**1,126**	1,126
After five years	**1,738**	2,019
Other operating leases:		
Within one year	**13**	17
In the second to fifth years inclusive	**11**	24
Total	**3,170**	3,468

None of the leases have any discounted periods or breakpoints within their remaining term.

21b. **COMMITMENTS UNDER OPERATING LEASES – LESSOR**

At 31 December the Group and Company had outstanding commitments for future lease receipts under non-cancellable operating leases, receivable as follows:

	2009 £'000	2008 £'000
Land and buildings:		
Within one year	**233**	217
In the second to fifth years inclusive	**933**	933
After five years	**403**	636
Total	**1,569**	1,786

The leases relate to two industrial units surplus to the requirements of the group. Both leases had an initial discounted period, one of which expired during 2009. One of the leases has a break point during 2010 and 2013. The other has a break point in 2012.

22. **PENSION COMMITMENTS**

The Group makes contributions to personal pension plans schemes based on contractual terms. The contribution charge for the year was £74,000 (2008: £69,000).

23. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Group and Company's financial instruments arise directly from operations and include cash, trade receivables, trade payables, lease finance and equity. The use of these instruments exposes the Group and Company to risk relating to exchange rate, liquidity, interest rates and credit.

Foreign currency exchange rate risk

Within the Group, Bioplastics sales are predominantly priced in Euro's which is the same currency in which purchases are made. This largely mitigates exchange rate risk. RF Applications sales are predominantly quoted in Sterling. The bespoke nature of most RF Applications sales allow for adverse and beneficial exchange rate movements to be reflected in the quoted price. The Group does not enter into forward foreign currency contracts. The assets and liabilities of the Biotec subsidiary are denominated in Euro's. During 2008 a 31% appreciation of the Euro against Sterling resulted in a Euro foreign exchange gain of

£1,891,000 in the consolidated statement of comprehensive income from the retranslation of intercompany balances and £1,343,000 gain in the foreign exchange reserve in the consolidated statement of financial position. During 2009 a 8% depreciation of the Euro against Sterling resulted in a foreign exchange loss of £618,000 in the consolidated statement of comprehensive income from the translation of intercompany balances and £342,000 loss in the foreign exchange reserve in the consolidated statement of financial position. Future appreciation or depreciation of the Euro against Sterling will result in materially similar foreign exchange gains or losses in the consolidated statement of comprehensive income and consolidated statement of financial position.

The total foreign exchange loss recognised in the consolidated statement of comprehensive income in 2009 was £815,000 (2008: gain £2,205,000). This comprised a foreign exchange loss from trading of £76,000 (2008: gain £139,000) and a loss from the retranslation of intercompany balances of £739,000 (2008: gain £2,066,000).

Interest rate risk
Currently the Group and Company do not have any Loans or Floating Rate Borrowings. Exposure to interest rate fluctuations is primarily with interest received on its cash asset. An increase or decrease of 1 per cent in market interest rates would have a circa £16,000 effect on interest income during 2010. Trade receivable and payables do not ordinarily attract interest and are therefore subject to fair value interest rate risk. Interest on all Hire Purchase agreements and prommissory notes is fixed and therefore free from interest rate risk.

The interest rate exposure of the financial assets and liabilities of the Group as at 31 December 2009 is shown in the table below. The table includes trade receivables and payables as these do not attract interest and are therefore subject to fair value interest rate risk.

Group

Interest rate	**Fixed**	**Floating**	**Zero**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets				
Cash and cash equivalents	—	3,219	—	3,219
Trade and other receivables	—	—	2,283	2,283
Totals	**—**	**3,219**	**2,283**	**5,502**
Financial liabilities				
Trade and other payables	—	—	1,476	1,476
Lease finance	826	—	—	826
Promissory notes	6,999	—	—	6,999
Totals	**7,825**	**—**	**1,476**	**9,301**

23. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** Continued

Company

Interest rate	**Fixed**	**Floating**	**Zero**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets				
Cash and cash equivalents	—	2,717	—	2,717
Trade and other receivables	7,066	—	5,650	12,716
Totals	7,066	2,717	5,650	15,433
Financial liabilities				
Trade and other payables	—	—	834	834
Totals	—	—	834	834

Liquidity risk

The Group and Company fund activities from existing cash resources. Details of a proposed new share issue are given in the Chairman's statement on pages 3 to 6 and in Note 28 to the financial statements. Liquidity is managed over the medium terms with appropriate steps taken to ensure adequate cash is available to fund the Group and Company's activities.

Credit risk

The Group and Company's principal financial assets are cash and trade receivables. The credit risk associated with cash is reduced through deposits being split across a number of British Banks. The credit risk arising from the Group and Company's trade receivables is reduced through prescribing credit limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed on a regular basis in conjunction with debt ageing and collection history. Note 13 provides information regarding the effects of credit risk to the Group and Company.

24. **CONTRACTS IN WHICH DIRECTORS HAVE AN INTEREST**

There are no contracts within which the directors have an interest.

25. **CONTINGENT LIABILITIES**

Novamont S.p.A's proceedings against Biotec Biologische Naturverpackungen GmbH & Co KG, Germany ("Biotec") remain ongoing.

The first court judgement in France has been received and is in favour of Biotec. Biotec continues to defend the claims made by Novamont robustly and Stanelco and Biotec continue to take professional and technical advice with regard to this litigation, and are confident of a successful outcome. Further details of this are given in the Chief Executive's statement on pages 7 to 12.

26. **CONTROL**

There is no ultimate parent of the Group.

27. **RELATED PARTY TRANSACTIONS**

Details of share holdings in Subsidiary Companies are shown in the note detailing Fixed Asset Investments. Transactions between the Company and its Subsidiaries, which are related parties, have been eliminated on consolidation. The year end balances between the Company and its Subsidiaries are shown below:

	Amounts owed by related parties		Amounts owed to related parties	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Stanelco RF Technologies Limited	**3,366**	6,329	**—**	—
InGel Technologies Limited	**—**	—	**—**	—
Adept Polymers Limited	**2,115**	1,576	**—**	—
Aquasol Limited	**—**	—	**(538)**	(434)
Stanelco Inc	**—**	—	**—**	—
Biotec Holding GmbH	**7,066**	7,616	**—**	—
Total	**12,547**	15,521	**(538)**	(434)

Included in the above are provisions against certain inter-company receivables as follows:

	2009 £'000	2008 £'000
Stanelco RF Technologies Limited	**10,000**	7,000
Stanelco Inc	**788**	885
Adept Polymers Limited	**2,442**	2,442
Ingel Technologies Ltd	**39**	39
Total	**13,269**	**10,366**

Intergroup provisions	2009 £'000	2008 £'000
Balance at the beginning of the year	**10,366**	10,088
Impact of foreign exchange movements	**(97)**	239
Impairment losses recognised	**3,000**	39
Total	**13,269**	**10,366**

These provisions reflect directors assessment of the Subsidiaries short-term ability to repay the debts due to Parent Company. The assessment is based upon the discounted free cash flow of the Subsidiary at a discount rate of 12.25%.

No collateral or guarantees are held for intergroup receivables and all are repayable on demand.

Intergroup Trading

- Bioplastics Finished Products purchases from Biotec Holding GmbH during 2009 were £2,148,000 (2008: £2,099,000).
- Raw materials sold to Biotec Holding GmbH during 2009 were £1,390,000 (2008: £690,000).

28. POST BALANCE SHEET EVENTS

On 28 April 2010 the Board approved the announcement of its intention to raise up to £3.5 million (before expenses) from an issue of shares. Further details of this are given in the Chairman's statement on pages 3 to 6.

The Group's shareholding in Biotec is 50 per cent with the remaining 50 per cent owned by SPhere. Until 31 December 2009, the Group retained a casting vote over all material decisions in the joint venture, therefore Biotec is accounted for as a subsidiary in these financial statements on the basis of control. The casting vote expired on 31 December 2009 and from 1 January 2010 Biotec will cease to be fully consolidated.

The first court judgement on Novamont's proceedings against Biotec was received in France 2010 and was in favour of Biotec. Further details of this are given in the Chief executive's statement on pages 7 to 12.