Zotefoams plc: Annual Report and Financial Statements 2000

ZOTEFOAMS

corporate statement

Zotefoams plc is the world's leading manufacturer of cross-linked block foams. Its products are used in a wide range of markets, including sports and leisure, packaging, transport, healthcare, toys, building, marine and military.

Through a unique production process, the Company produces foams which have controllable properties and are of a strength, consistency, quality and purity superior to foams produced by other methods.

Zotefoams' strategy is to create sustained profit growth by expanding its sales internationally and by broadening its potential market with new unique products. This strategy is supported by our commitment to quality, innovation and customer service through investment in the training and development of our employees.

at a glance

- Global alliance with Sekisui Chemical now operational
- Building work completed on Kentucky facility
- Turnover fall due to exit from volatile Puzz 3D market
- Sales growth of 9.3% in our core business for the nine months to September
- October fire confined to inventory and support buildings
- Main plant operational within three days of the fire
- Dividend maintained at 7.5p net per share

Estimated sales volume by market segment:

SPORT & LEISURE	PACKAGING	TRANSPORTATION	BUILDING	MEDICAL	INDUSTRIAL	OTHER
19%	**30%**	**9%**	**11%**	**5%**	**17%**	**9%**

Financial Summary 2000

	2000	1999
Turnover (£m)	**20.8**	22.4
Operating profit (£m)	**2.4**	5.7
Profit before tax (£m)	**2.3**	5.8
Earnings per ordinary share (p)	**4.8**	11.2
Net dividend per share (p)	**7.5**	7.5

Sales by geographic area

NORTH AMERICA 21%

CONTINENTAL EUROPE AND OTHER 43%

UK AND EIRE 36%

chairman's statement

"A highly significant strategic alliance."

We signalled 2000 as a year of transition for Zotefoams and as announced in our interim report, we completed a strategic review of our markets and development priorities and in July successfully completed a highly significant strategic alliance with Sekisui Chemical Company Limited of Japan. In the second half-year we continued to grow our major markets in a climate of continuing high raw material price and Euro weakness. On 22 October 2000 a fire at our Croydon facility destroyed or damaged over 70% of our stock and some 25% of our buildings. Our foam production area was largely undamaged and production capability is not a limitation. Although supplies to our customers resumed in early November, demolition and clearance work on the site, in addition to long lead times on replacing some raw materials, meant we did not fully meet our customers requirements during November and December. Insurance is in place to cover assets and business interruption and we received an initial £2.0 million interim payment from our insurers in December.

RESULTS Profit before tax for the year ended 31 December 2000 was £2.3 million compared with £5.8 million for the year ended 31 December 1999. The 2000 figure includes one-off stock and capital equipment write-downs of £0.8 million. Turnover was £20.8 million (1999: £22.4 million). Earnings per share were 4.8p compared with 11.2p in 1999.

These results do not include any adjustments for insured losses incurred as a result of the fire.

Capital expenditure was £6.1 million, associated mainly with the new North American production facility.

DIVIDEND The Directors are recommending a final dividend of 5.0p net per share. This brings the total dividend for the year to 7.5p and is unchanged from the dividend in respect of the year ended 31 December 1999.

BOARD CHANGES As announced in the interim report, David Stirling, Finance Director and Company Secretary since 1997, was appointed Managing Director in May 2000.

Clifford Hurst was appointed Finance Director and Company Secretary with effect from 2 October 2000. I am delighted to welcome Clifford who was previously Commercial Director, and before that, Finance Director, of Thermos Limited.

Randall Redd resigned as a Director of Zotefoams plc and President of Zotefoams Inc. in July 2000.

EMPLOYEES On behalf of the Board, I would like to thank all our employees for their continued commitment to Zotefoams, and particularly for their dedication following the fire at Croydon. It was due to their exceptional efforts in very difficult working conditions that we were able to minimise the disruption to our customers.

PROSPECTS Although some adverse effects of the fire have continued into 2001, we are now close to re-establishing a quality service to our customers. We intend to maintain this service during the site restoration work and by the end of the year emerge better equipped to meet future requirements.

We anticipate a rapid recovery from the majority of negative effects of the fire to re-establish sustainable sales growth. Acceleration of this growth will come from the production presence in North America which is due to commence late first half 2001, and from the progressive benefits of the strategic alliance with Sekisui.

As we indicated in August, we believe we have a strategy to deliver a balanced, high margin growth business with an expanding international dimension.

WH FAIRSERVICE – CHAIRMAN

managing director's review

"Foam production within three days of fire was possible due to the effort and dedication of our employees."

Zotefoams is a manufacturer of high performance plastic foams used in a wide variety of applications across a range of industrial and consumer products.

Our product advantage comes from a unique production process allowing us to make foams with superior properties valued by our customers.

Our headline results in 2000 show the impact of three major events taking place in the year. Certainly the most dramatic has been the impact of the fire which struck Zotefoams on 22 October 2000. Also very prominent has been the effect of the fall in demand from the Puzz 3D toy segment from 12% of turnover in 1999 to 1% this year. Less noticeable, but perhaps more important to the long-term prospects of Zotefoams was the strategic review undertaken in June. The immediate consequences of this were a reassessment of our development priorities resulting in clearer, value-added focus and concentration on fewer development projects.

Turnover in 2000 was £20.8 million, a fall of 7% from 1999. Profit before tax was £2.3 million (1999: £5.8 million) due to the fall in turnover, restructuring costs and higher costs of LDPE our major raw material.

Sales in our core business increased by 4% over 1999. However, excluding adverse foreign exchange movements of £0.5 million, the growth rate for the year was £1.25 million (6.3%). In the first 9 months of the year Zotefoams achieved an average growth rate of 9.3% in core markets before the effects of exchange rate movements.

Q: Excluding the Puzz 3D toy segment, what was the performance of your "core" business this year?

A: Sales to September 2000, the last full month before the fire, increased 9.3% in constant currency terms over the comparable period in 1999.

The ease of machining of PLASTAZOTE foam ensures its use in many packaging applications such as the case insert for display packaging shown below.

PLASTAZOTE foam is used in this range of swimming floats where the durability, buoyancy and depth of colour of the foam helps to sell the product.

TOY SEGMENT Sales to the Puzz 3D application were 12% (£2.7 million) of our total turnover in 1999. This year they accounted for only 1% of total sales. This fall of £2.4 million was the principal reason for the fall in sales in 2000 compared with 1999. The majority of our stock and capital equipment write-down of £0.8 million taken in the first half of 2000 also related to the fall in demand from this segment.

Going forward Zotefoams will benefit significantly from this dramatic change in the demand profile of our business. The inherent volatility in the toy business is now gone, leaving a stable core business with a diverse application base and growth prospects.

IMPACT OF THE FIRE The fire at Zotefoams which occurred on 22 October 2000 destroyed or damaged over 70% of our stock and 25% of buildings, including our despatch facilities, materials storage, maintenance workshops and project facilities and also our technical laboratory.

Such a major incident obviously effected the normal operation of our business and, short-term, the ability to meet customer demand. Thanks to London Fire Brigade and our fire protection systems the main production facilities were largely undamaged. It is due to the effort and dedication of all our staff, working under adverse conditions, that Zotefoams was producing foams only 3 days after the fire.

Initially, this production was constrained by some factors, including supply of speciality raw materials, restricting our ability to supply a full grade range to all customers. Each month has seen a marked improvement in production capability, however the effects of the fire are still being felt.

Rebuilding work has commenced and production output has returned to pre-fire levels. Materials storage remains a problem affecting our planning and despatch operations. However good progress has been made in learning to live with the constraints of the site during this restoration period. We know that as rebuilding work advances the site improvement will help productivity and therefore are very confident that, towards the end of the year, we will be in a better position than before the fire.

managing director's review

EVAZOTE foam has gained wide acceptance as the material of choice for floor cleaning applications in the Benelux countries, Germany and France.

If stacked in 1m x 1m blocks our foam sales in 2000 would be 14 times the height of Mount Everest.

At this stage it is difficult to fully quantify the effect of the fire on our business. Insurance is in place to cover the loss of stock, buildings and machinery and also any loss of business or increased costs for an 18 month indemnity period. A payment of £2 million was received from our insurers in December to cover fire-related expenditure to the end of the year.

Due to the effects of the fire it is more informative to analyse our performance pre and post fire rather than for the year as a whole. For this reason the sales and market analysis for non-Puzz 3D business is split between the first 9 months and the last 3 months of the year.

FIRST NINE MONTHS

OVERALL In the first nine months turnover increased 6.5% over the comparable period. Excluding adverse currency movements of £0.43 million underlying growth was 9.3% (£1.4 million).

NORTH AMERICA The major contributor to this was North America where focused sales effort and a broadening of product range in anticipation of our Kentucky plant opening led to a 19.8% growth in turnover in local currency terms.

The major growth segments were packaging (30% growth), and automotive (85% growth). Both areas were targeted for growth with new products launched specifically for the North American market. Modifications to these products introduced new polymer blends and adjusted sizes to American standards thereby allowing customers better yields.

UNITED KINGDOM Growth of 4.3% was a combination of 3% volume growth and a slight improvement in product mix.

Again the focused effort in automotive and packaging segments produced the main growth areas. However, slow general economic conditions were behind falls in the marine products and sports and leisure markets.

CONTINENTAL EUROPE Underlying activity was strong with an average 7% volume increase across continental Europe. This, combined with price increases in all our major markets, led to a 9.5% sales increase in constant currency.

The main growth area in Europe was in general industrial goods with a 17% increase. All market segments, other than military, grew compared with the same period last year.

Our fastest growing market was Italy where a change of distribution strategy two years ago was the main factor behind a growth rate of 51%.

LAST THREE MONTHS Sales in the last three months of 2000 declined by 3.4% (£0.16 million) compared to 1999. The Board believes that the growth rates seen in the first 9 months of the year were a good indication of the strength of underlying market demand into the final quarter of the year. The loss of 3 weeks finished goods stock and much of our work-in-progress and raw materials in the fire meant that, despite production capacity being available in the first week after the fire, we were unable fully to meet demand.

Q: What was behind the high growth rates in North America?

A: Modifications to our product range, including new polymer blends and the introduction of American standard sizes, made our foams more attractive to customers in North America.

A range of knee pads have been developed in Canada; an example of an application in Europe being transferred, with our support, to the North American market.

Shown below are a range of products designed to be used for returnable packaging.

The average foam sheet contains around 1.5 billion cells (bubbles) containing gas

Early indications are that the loss of sales in the final quarter will not adversely affect 2001. However the fire came at a sensitive time as we began to offer new products to customers as an alternative to Sekisui-produced foams. It is therefore likely that some customers' intentions to switch to Zotefoams products were affected by the fire.

MANUFACTURING AND CAPACITY The majority of capital expenditure during 2000 was in our new satellite plant in Northern Kentucky, which is expected to be commissioned in the first half of 2001. This facility will utilise the technology development, announced during 1999, of shipping non-expanded nitrogen saturated plastic sheets before final expansion at our Kentucky site. The only other significant item of capital expenditure relates to our investment in a fully integrated, multi-site computer system, which is due for commissioning in the second quarter of 2001.

Gross margins fell to 32% compared to 43% in 1999. There are three main reasons for the fall; adverse macro-economic variables, lower plant utilisation due to the fall in turnover and one-off stock and capital equipment write-downs.

The environment of continued Euro weakness, combined with high raw material prices, is estimated to have reduced profits by £1 million compared to 1999. The average price of LDPE, our main raw material, increased by 19% (while similar movements were evident in other commodity polymers). In addition we estimate the fall in turnover reduced our gross margins by some 4.2%. Our June strategic review resulted in a write-down of £0.8 million of stock and assets; of which £0.7 million was a non-cash charge to cost of sales.

TECHNICAL DEVELOPMENT Zotefoams has a unique technology and is able to make products which other, competing technologies cannot achieve. We therefore believe development of new products is a key area for the future success of our business. However during the year much of our focus has been to develop products which have similar attributes/characteristics to those foams produced by Sekisui, our alliance partner. These developments have allowed Sekisui to offer Zotefoams products to their customers in Europe; paving the way for the closure of their low-density block foam manufacturing operation in December 2000.

technology and innovation

Q: What does cross-linking do?

A: Cross-linked plastics and foams have enhanced material strength, durability and temperature resistance. This is achieved by the formation of a lattice-like structure at molecular level. This gives enhanced performance in many applications such as moulding and long life packaging.

The purity of our products ensures that they are widely used in medical applications such as this orthopaedic brace.

Zotefoams products have a number of key properties, which make them the preferred solution in a wide variety of end-use markets and applications.

1 Foam (cellular) structure – our foam cell structures are regular and approximate the ideal theoretical structure for shape packing. This benefit leads to better and more consistent physical properties such as strength and toughness. Imagine a bee's honeycomb. It is the most efficient use of space and material to give the required structural strength whilst maximising volume.

2 Environmental benefits – no hazardous or environmentally damaging gases, regularly used in competitive processes (such as isobutane, propane, CFC's or HCFC's) are used in the expansion of our foams. Nitrogen is an inert gas and makes up around 78% of the atmosphere of our planet and we therefore 'borrow' the gas to make efficient use of other earth-derived materials (the plastic is produced from oil).

3 Purity – there are no chemical residues such as ammonia present in our foams as our expansion is a physically rather than a chemically induced one. Residues of ammonia gas, flammable gas residues such as iso-butane and other solid substances are common in competitive materials.

Most modern fabrication methods are developed from traditional techniques, but enhanced through the addition of CNC (computer numerical controls). Multi-axis routing machines and water-jet cutters are typical examples.

CNC controlled machines are able to rapidly produce parts with high engineering tolerances. Such highly specified parts can only be made from materials with sufficient durability to withstand processing and have a consistent structure to make each part identical. In addition the materials must be stable so the tolerances of the machined part do not change after manufacture.

PLASTAZOTE foams meet these exacting requirements allowing our customers to create new applications, extending the markets where foams are used.

This multi-axis routing machine is a typical example of modern fabrication methods.

Willhelm Kopp Zellkautschuk, our main German distributor, approached us to develop a product that could be used for insulation in the building industry. The product had to pass the stringent German building flammability requirement and be easily mouldable to fit the complex outer profile of the pipe valves and taps, as well as match the colour of the product being used in other parts of the system.

After extensive trials a grade was successfully developed with a modified colour, flammability and cross-link level that fully met the requirements. The material is now being used in Germany and is being sampled for the Austrian market.

4 Flexibility – the process offers great scope in production and in product range. It is capable of producing foams not physically possible by other means, such as our HD grade foams and polypropylene grade range.

Fundamental to our success is that our foams create advantages for our customers, advantages which are not available through competitive products. A profile of properties such as high strength to weight ratio; energy absorption; ease and consistency of moulding and cutting; inherent water resistance and buoyancy as well as foam purity all contribute to our sales success.

Zotefoams employs a truly unique manufacturing process. At its heart is our proprietary high pressure gassing system to produce foams. The process produced the first cross-linked polyethylene foams in 1962 however the last two decades have seen a transformation in scale, flexibility and scope to achieve the world leading process technology that now exists in Croydon.

The process involves heating a plastic slab in an atmosphere of pure nitrogen gas. Process temperatures of 250°C and pressures up to 10,000 psi (670 bar) combine to dissolve nitrogen gas into the molecular structure of the softened plastic. The plastic sheet is then transferred to an expansion autoclave where the sheet is expanded into the finished foam.

Having the flexibility to vary the processing conditions of our equipment over a wide range allows us to explore materials which cannot be foamed by other means. Higher temperature resistance, improved chemical resistance and non-flammable foam products are properties valued by key customers and are all prime targets in development.

As the raw materials used directly influence such properties of the foam, the ability to process a wide range of material gives an advantage in developing these characteristics. Our process operating conditions support the development of these key attributes while most other foaming methods are less flexible. Successful exploitation of these capabilities is fundamental to Zotefoams' future growth. Our philosophy is to concentrate resources where the differential advantage of our process is greatest and the benefit to our shareholders is greatest.

Since its stock market flotation in 1995 Zotefoams has concentrated development resource on improving its process capability and working with customers to meet their specific needs in product variants. While development of variants will continue to be an important element in customer service and sales growth, the time is now right for Zotefoams to focus on increasing development of new products and areas of greater opportunity. This means future investment will concentrate in establishing an organisation capable of exploiting Zotefoams' unique technology in areas of high differential advantage.

global growth

The new factory in Northern Kentucky is now complete. Equipment is currently being installed and production is due to commence in the late first half 2001.

GLOBAL REACH Already the largest producer of cross-linked block foams, Zotefoams future lies in growing existing markets through technology leadership and in gaining market share in newer markets. Of primary interest is the North American market.

Zotefoams have been selling foams in North America, through our dedicated salesforce, since the 1980's. We have an extensive customer network and an excellent market reputation. However, the transportation costs of shipping across long distances are prohibitive for most expanded foams. Our presence in North America has been limited, until recently, to our speciality products, which have a higher selling price and can pay for the costs of transport. However, investment in our Kentucky satellite plant will allow us to ship nitrogen-impregnated, non-expanded sheets to North America and expand them to foam there. With an average expansion ratio of 25 times this is a very significant cost saving – even allowing for duty costs and more expensive, refrigerated containers.

In 1999 we increased sales of non-Puzz 3D materials to North America by 16%. In 2000 the sales growth was 20% in the months before the fire. We expect these growth rates to be typical of the medium term potential of the North American market as we increase the range of products sold and our customers begin to appreciate the improved service and delivery times from our plant. Both factors will drive our ambition to significantly increase our share of this exciting market.

We are also excited by the longer-term prospects for our materials in Asia. Initially we expect limited sales as products are introduced to these markets. However, our experience is that speciality applications for our foams will develop exploiting the purity and performance advantage of our foams. The alliance we have with Sekisui utilising an established sales presence in every major Asian market, will be the building block for this growth.

PARTNERSHIP As a business whose products are used in many industrial and consumer applications our future depends on developing and maintaining links to support these markets, to drive our growth and focus our activity.

During the year Zotefoams finalised a co-operation agreement with Sekisui Chemical Co Ltd of Osaka, Japan. Sekisui are the largest producer of cross-linked foams in the world, with the majority of their sales being in roll form rather than the block products which Zotefoams make. The deal with Sekisui is world-wide and positions Zotefoams foams as a replacement of Sekisui block foams in Europe and as a supplement to their product range elsewhere. The co-operation differs across geographic regions as follows:

Q: Why transport intermediate products to Kentucky for foaming?

A: Shipping unexpanded sheets to Kentucky then foaming them for delivery to our customers significantly reduces transport costs. We estimate a 70% reduction in the number of container miles travelled.

Expanding the plastic by up to 65 times means the foam sheets contain as little as 1.5% plastic by volume

During the stage where the nitrogen gas is dissolved into the plastic sheets, the gas pressure is regularly held at up to 10,000 pounds per square inch. This is 350 times the normal pressure of a car tyre.

EUROPE – Sekisui will market and sell Zotefoams product in exclusion to all other block foams through its Alveo subsidiary. In December 2000 Alveo ceased production of competing block foams.

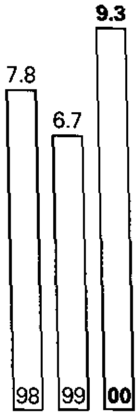
NORTH AMERICA – Voltek, the foam division of Sekisui in America, have a cross-agency agreement with Zotefoams. This allows both companies exclusive agency rights to a portfolio of foams.

ASIA – Sekisui and their affiliates will act as exclusive distributor of Zotefoams products.

The European co-operation is already considerably advanced giving Zotefoams access to Alveo customer base and increasing our visibility of market trends. This allows us to work more closely to the specifier of the end application, driving product development and ensuring a partnership approach to meeting customer requirements.

DB STIRLING – MANAGING DIRECTOR

finance director's review



PERCENTAGE GROWTH IN NON-PUZZLE SALES

Sales growth 1998 – September 2000 in constant currency

RESULTS Turnover fell 7%, from £22.4 million in 1999 to £20.8 million in 2000. The major reasons for the reduction were the fall of sales to the toys business (£2.4 million) and adverse foreign exchange rates (£0.5 million). Underlying turnover excluding these factors grew at 9.3% for the nine months to September 2000, the period preceding the fire.

ANALYSIS OF EXPOSURE TO MAIN CURRENCY GROUPS – £ MILLION EQUIVALENT

£million incurred in	£	US$	Euro	Total
Turnover	7.5	4.4	8.9	20.8
Cost of sales	(11.6)	—	(2.6)	(14.2)
Gross profit	(4.1)	4.4	6.3	6.6
Distribution costs	(1.0)	(0.9)	(0.1)	(2.0)
Administrative expenses	(2.2)	—	—	(2.2)
Operating profit	(7.3)	3.5	6.2	2.4

Cost of sales includes £3.0 million depreciation charge.

Profit was impacted by these factors. A table showing the 2000 results by currency is shown above. The net impact of currency was £0.4 million adverse compared to 1999. For major currencies to which the Group is exposed the exchange rates used in the financial statements are:

	2000		1999	
	Average	**Year end**	Average	Year end
US dollar	**1.51**	**1.49**	1.62	1.62
Euro	**1.64**	**1.64**	1.51	1.60

Prices for LDPE, our major raw material averaged £590 per tonne in 2000 compared to £497 per tonne in 1999 and this reduced profit by £0.5 million. A one-off charge of £0.8 million to write down stock and capital equipment was made in the first half of 2000. The June strategic review focussed on the Puzz 3D toy business and the viability of development projects. Projects which were not expected to provide adequate returns were cancelled, allowing increased focus on better opportunities.

Equipment and stock associated with supplies to the Puzz 3D market were written off. The combined effect of this was a one-off charge of £0.8 million which was made in the first half of 2000. Overall operating profit fell from £5.7 million in 1999 to £2.4 million in 2000.

THE IMPACT OF THE FIRE No profit or loss relating to the damage or destruction of fixed assets and stock, or from revenue costs incurred as a result of the fire at the Company's Croydon site on 22 October 2000 has been recognised in the profit and loss account. The business is insured for such losses, but because of the proximity of the fire to our year end final amounts still need to be agreed with our insurers. Stock destroyed in the fire amounted to £1.2 million, fixed assets £0.9 million and the business incurred £0.8 million of revenue costs as a result of the fire in the period ending 31 December 2000. Against this we have received an interim payment from our insurers of £2 million prior to the end of the year. The difference of £0.9 million between the costs incurred and the proceeds so far received has been treated as an insurance receivable within other debtors on the balance sheet.

In 2001 the Group will incur an exceptional item in its profit and loss account for the fire which will also include costs and proceeds received in 2001. Fixed assets were insured on a replacement basis at the nearest equivalent cost of those assets (ie a "new for old" type policy). The amounts received from insurers are therefore likely to show a gain compared to historic book values. However, it is planned that this money will be reinvested in buildings and plant resulting in a higher depreciation charge in 2002. Margins on sales losses attributable to the fire are covered under the Company's business interruption insurance for the 18 months following the fire, but no income from this has been shown in the 2000 accounts and this is expected to form part of the exceptional item in 2001.

TAXATION The effective tax rate for the Group was 24%. Corporation tax has been provided for at the rate of 30%. However, there was a deferred tax credit of £0.1 million due to the benefit of capital allowances on the investment in North America. As this project is completed the effective tax rate for the Group is expected to rise to 30%.

CASH FLOW AND FUNDING Operating cash flow was £5.5 million positive. However, with the investment in the North American manufacturing facility there was a net cash outflow before financing of £3.3 million. The final dividend proposed is 5.0p making a total dividend for the year of 7.5p. Many of the factors which have impacted on the 2000 results – the fire and the £0.8 million write-off of stock and capital equipment at the half year were non-recurring in nature and the dividend has therefore been kept at the same level as last year. The balance sheet remains strong with net borrowing of £0.4 million against net assets of £28.1 million.

TREASURY AND ACCOUNTING POLICIES The Board has defined policies and procedures relating to treasury management and accounting practices. These are designed to provide appropriate business support, consistency of reporting and to mitigate financial risk.

In accordance with these policies sales invoices, net of purchases, are normally hedged forward to the date of currency receipt. Translation exposure of foreign currency denominated net assets is not currently considered material and is therefore not hedged.

Cash requirements are reviewed weekly and surplus cash is placed on Treasury Deposit for periods ranging from overnight to one month. Net borrowing has not been significant and neither finance or interest rate risk to date has been considered material.

With the new manufacturing facility in America the net exposure of the Group will change significantly and the hedging policies of the Group will be restructured to minimise the risks that may result.

GOING CONCERN STATEMENT After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

CG HURST – FINANCE DIRECTOR

directors and advisers

BILL FAIRSERVICE PHD BSC#
EXECUTIVE CHAIRMAN, AGE 60
Led the MBO of Zotefoams from BP Chemicals in 1992, when he became Managing Director of Zotefoams Limited and later Zotefoams plc. Appointed Chairman in January 1999. Previously spent most of his working career with BP Chemicals in a number of technical, production and business management roles.

IAN BUCKLEY BSC FCA*†#
NON-EXECUTIVE DIRECTOR,
CHAIRMAN OF THE AUDIT COMMITTEE, AGE 50
Appointed to the Board in January 1995. Chief Executive of Tenon plc and previously Chief Executive of EFG Private Bank Limited and Smith & Williamson.

ANTHONY ELDRETT MBA
OPERATIONS AND PROJECTS DIRECTOR, AGE 56
A Director since the MBO in September 1992. Previously employed by BP Chemicals for more than 25 years, holding wide-ranging positions in human resources, health and safety, engineering projects and operations management.

CLIFFORD HURST BA ACA MCT
FINANCE DIRECTOR AND COMPANY SECRETARY, AGE 38
Joined Zotefoams in October 2000 from Thermos Limited where he was Commercial Director and prior to that Finance Director. Previously with Caradon plc, ICI plc and Ernst & Young.

MIKE LEWSEY BA
MARKETING & SALES DIRECTOR, AGE 50
A Director since 1992. He was formerly Sales & Marketing Manager in the BP Foams Business which he joined in 1988. Previously worked in a sales development role within BXL Plastics.

JOHN MARLEY*†#
DEPUTY CHAIRMAN AND SENIOR NON-EXECUTIVE DIRECTOR, CHAIRMAN OF THE REMUNERATION AND NOMINATIONS COMMITTEES, AGE 66
Appointed to the Board in 1995. Formerly Chairman and Chief Executive of Avdel plc where he spent most of his working career developing worldwide manufacturing and marketing facilities for precision engineered products.

CHRIS RYAN BSC FICHEME CENG*†#
NON-EXECUTIVE DIRECTOR, AGE 54
Appointed to the Board in December 1999, Formerly Managing Director of Air Products PLC and Senior Vice President of Air Products and Chemicals Inc with responsibility for Air Products European Gases businesses. He is a graduate of the Harvard Business School ISMP Program and was previously based in the USA for five years, with global accountability for Air Products' Electronics Business, as well as Corporate Planning and Strategy.

DAVID STIRLING BSC CA MBA MSC
MANAGING DIRECTOR, AGE 34
Joined Zotefoams in September 1997 as Finance Director. Appointed Managing Director in May 2000. Previously with BICC plc, PriceWaterhouse in USA and Poland and KPMG. A graduate of Warwick and London Business Schools.

*Member of the Remuneration Committee
†Member of the Audit Committee
#Member of the Nominations Committee

REGISTERED OFFICE
675 Mitcham Road
Croydon CR9 3AL
Registered number 2714645

FINANCIAL ADVISERS
HAWKPOINT PARTNERS LIMITED
4 Great St Helens
London EC3A 6HA

AUDITORS
KPMG AUDIT PLC
8 Salisbury Square
London EC4Y 8BB

BANKERS
BARCLAYS BANK PLC
PO Box 544
City Service Centre
54 Lombard Street
London EC3V 9EX

STOCKBROKERS
ING BARINGS
60 London Wall
London EC2M 5TQ

SOLICITORS
GARRETT & CO
180 Strand
London WC2R 2NN

REGISTRARS
COMPUTERSHARE SERVICES PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
www.computershare.com.

financial contents

directors' report

The Directors present their annual report and audited financial statements for the year ended 31 December 2000.

PRINCIPAL ACTIVITY The Group's principal activity is the manufacture and distribution of cross-linked block foams. A review of activities during the financial year and future developments is presented on pages 2 to 13 of the annual report.

RESULTS AND DIVIDENDS Profit attributable to shareholders for the year amounted to £1.8 million (1999: £4.1 million). An interim dividend of 2.5p (1999: 2.5p) net per share was paid on 14 September 2000. The Directors recommend that a final dividend of 5.0p (1999: 5.0p) net per share be paid on 1 May 2001 to shareholders who are on the Company's register at the close of business on 30 March 2001.

DIRECTORS With the exception of C G Hurst, all the current Directors named on page 14 served throughout the year. A C Gingell resigned from the Board on 3 May 2000 and R V Redd on 14 July 2000.

D B Stirling was appointed Managing Director on 4 May 2000 and was replaced as Finance Director by C G Hurst who joined the Company on 2 October 2000.

The Directors retiring by rotation at the Annual General Meeting are D B Stirling and I M Buckley who, being eligible, offer themselves for re-election. C G Hurst, who was appointed a Director since the last Annual General Meeting, being eligible, also offers himself for re-appointment at the Annual General Meeting. Executive Directors retiring by rotation have service contracts which are determinable on 12 months written notice.

EMPLOYEES To ensure employee welfare, the Company has documented and well-publicised policies on occupational health and safety, the environment and training. It operates an equal opportunities, single status employment policy, together with an open management style. A culture of "continuous improvement" operates in all areas of the Company operations. The Company operates to a number of recognised industry standards including Quality (ISO 9002), Environmental (ISO 14001), Training (IiP) and Occupational Health and Safety (OHSAS 18001) approvals.

SUBSTANTIAL SHAREHOLDINGS As at 21 February 2000 the Company had received notice of the following material interests of 3% or more in the issued ordinary share capital in addition to those of the Directors which are shown in the Report of the Board on Directors' remuneration.

	Ordinary share of 5p	Percentage of issued share capital
3i Group plc	2,879,192	7.9%
Advance Value Realisation Company	2,847,200	7.9%
Philips & Drew Life Limited	2,821,600	7.8%
M & G Investment Management	2,138,300	5.9%
Legg Mason Investors Enterprise Trust	1,625,000	4.5%
H T Troplast AG	1,429,992	3.9%
Mineworkers Pension Scheme	1,156,000	3.2%

CREDITOR PAYMENT POLICY It is not Company policy to follow any standard or code of payment practice. Payment terms are agreed with suppliers when negotiating contracts or transactions. The Company ensures that, subject to any necessary variations which may result from supplier-related problems, the agreed payment terms are adhered to.

At 31 December 2000 trade creditors of the Company represented 47 days of purchases (1999: 41 days).

SHARE CAPITAL AND RESERVES There were no changes to the issued share capital during the year. Movements in reserves are shown in note 19 to the financial statements.

PENSION SCHEME The trustees of the Zotefoams' Pension Scheme comprise three employers and two employee representatives, the latter being elected by the members of the scheme.

CHARITABLE AND POLITICAL DONATIONS The Group did not make any political contributions during the year. A charitable donation of £250 was made by the Group during the year to the Douglas Bader Foundation.

AUDITORS A resolution to re-appoint KPMG Audit Plc as the Company's auditors will be proposed at the Annual General Meeting.

By order of the Board

C G HURST Secretary
23 February 2001

report of the board of directors on directors' remuneration

REMUNERATION COMMITTEE MEMBERSHIP AND TERMS OF REFERENCE The three non-executive Directors comprise the Committee which is chaired by Mr J C Marley, the Deputy Chairman.

The remuneration and emoluments of executive Directors are determined by the Remuneration Committee.

REMUNERATION POLICY It is the aim of the Committee to reward Directors competitively whilst being sensitive to pay and employment conditions elsewhere in the Company.

Performance related remuneration is currently limited to the Inland Revenue approved Profit Sharing Share Scheme described below. The Remuneration Committee has taken into consideration that three executive Directors hold a material interest in the Company's shares, having participated in the management buy out in 1992. The Committee considers that the interests of these Directors are completely aligned with those of other shareholders. To recruit, retain and motivate key employees who did not participate in the management buyout, the Board have decided, subject to shareholders' approval to introduce an unapproved discretionary share option scheme. The Board believes that this should help in achieving the objective of directly aligning these key executives' interests with those of shareholders.

It is proposed that the scheme will be operated by the Company's Remuneration Committee who will decide which individuals should participate and the extent of their participation. Options granted under the scheme will normally be exercisable no earlier than three years from the date of grant and no later than ten years from the date of grant.

It is proposed that the options will only become exercisable if certain performance criteria are attained under a scaled vesting schedule. The Board believes that the proposed performance condition is stretching.

The performance condition that the Remuneration Committee intends to impose is that an option may only be exercised, if over a period of not less than three financial years commencing at the start of the financial year in which the grant is made, the percentage growth in normalised earnings per share of the Company exceeds the percentage growth in the retail price index by over 20%.

If, in the future, other performance conditions prove to be more appropriate, these may be imposed instead, provided they satisfy the guidelines of the institutional investors.

The Board proposes that this scheme incorporates a clause so that it is agreed with the individual, before they are granted an option, that the Company will either transfer its NICs liability to the individual, or it will recover any NICs paid in this regard upon the exercise of an option from the individual.

BONUS SCHEMES AND BENEFITS IN KIND In 2000 there was no performance related pay scheme specifically reserved for Directors. For UK-based employees the Company operates an Inland Revenue approved Profit Sharing Share Scheme. This scheme came into effect on 1 January 1997 and replaced an Inland Revenue approved Profit Related Pay Scheme. The benefit attributable to participants each year is based on adjusting a pool of value in relation to the change in profit. For 2000 there is no pay out under this scheme.

For 2001 the Board of Directors accepted the recommendation of the Remuneration Committee to amend the bonus scheme available to executive Directors in line with provision B.1.4 of the Combined Code. The Remuneration Committee recommended that the executive Directors should be eligible for a discretionary bonus based on performance thresholds which will be set by the Remuneration Committee.

The principal benefits in kind provided to Directors include a company car, or as an alternative a non-pensionable company car cash allowance and private healthcare insurance.

SERVICE CONTRACTS

The executive Directors have service contracts with the Company which are determinable on 12 months written notice from the Company or the respective Director.

Non-executive Directors have an initial appointment of three years unless determined by the Director or the Company on at least six months written notice.

The service agreements between each of the Directors and the Company do not entitle the respective Director to payment of compensation on termination other then statutory compensation.

PENSION SCHEME

The UK-based executive Directors are members of the Zotefoams' Pension Scheme which is open to all eligible employees. This entitles each of them to a pension at the date of normal retirement, based on final basic salary. Each member contributed 5% of pensionable pay to the scheme in addition to the Company's contribution rate of 12%.

The normal retirement age for executive Directors is 65. The non-executive Directors do not participate in the Zotefoams Pension Scheme.

The remuneration of non-executive Directors is determined by the full Board after taking appropriate advice from the Company's advisers.

DIRECTORS' PENSION ENTITLEMENTS

	Age at year end	Increase in accrued pension during the year[(1)] £	Directors' contributions in the year[(2)] £	Accumulated total accrued pension at year end[(3)] £
A Eldrett	56	1,552	3,897	42,021
W H Fairservice	60	1,557	4,396	11,997
M P Lewsey	50	1,286	3,391	28,269
D B Stirling	34	1,548	4,212	3,992
C G Hurst	38	—	894	—
A C Gingell	46	—	1,501	—

(1) The increase in accrued pension during the year excludes any increase for inflation.

(2) These are the contributions paid or payable in the year by the Director under the terms of the scheme.

(3) The pension entitlement shown is that which would be paid annually on retirement, based on service to the end of the year and excluding any increase for inflation.

(4) Members of the scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table.

(5) A C Gingell left the scheme in May 2000 having completed less than two years' service. His benefits had not vested and he therefore received a refund of his contributions to the scheme.

(6) The 1999 accumulated accrued pension for D B Stirling, the highest paid Director, was £2,417.

(7) R V Redd, who is a resident in the USA, was a member of Zotefoams Inc. Defined Contribution Pension Scheme and 401(k) plan. He left the Company in July 2000 and having completed less than five year's service his benefits had not vested. He therefore received a refund of his contributions to the scheme.

(8) C G Hurst joined the scheme on 2 October 2000. A zero pension is disclosed for Directors who have not completed two years' service and whose benefits have not yet vested.

The following is additional information relating to Directors' pensions:

(a) Normal retirement age: 65

(b) Dependents' pensions: a spouse's pension is payable on death in service of one-third of the member's annual salary at death. On death after leaving service, before retirement, a spouse's pension is payable of 50% of the member's preserved pension at leaving, re-valued from leaving to death in line with statutory revaluation increases. On death in retirement, a spouse's pension is payable of 50% of the member's pension at death, without reduction for any part of the member's pension surrendered for cash at retirement.

(c) Pension increases: guaranteed minimum pensions increase at the statutory rates. Other pensions increase by the lesser of 5% per annum or the increase in the Retail Prices Index.

report of the board of directors on directors' remuneration

DIRECTORS' REMUNERATION AND EMOLUMENTS

Remuneration in £	Basic salary /fees	Profit share scheme	Car allowance	Other benefits	**Total 2000**	Comparable 1999
W H Fairservice	91,500	—	—	1,376	**92,876**	115,839
A C Gingell	134,834	—	3,440	395	**138,669**	112,258
A Eldrett	81,422	—	9,162	1,412	**91,996**	93,824
M P Lewsey	71,290	—	—	9,856	**81,146**	81,621
D B Stirling	93,364	—	9,788	837	**103,989**	83,254
R V Redd	35,634	—	—	7,236	**42,870**	32,427
C G Hurst	18,750	—	2,300	—	**21,050**	—
I M Buckley	18,375	—	—	—	**18,375**	17,589
J C Marley	20,000	—	—	—	**20,000**	19,464
C J Ryan	18,450	—	—	—	**18,450**	1,500

NOTE:

(1) Fees, car allowance and other benefits are non-pensionable.

(2) Only M P Lewsey and Mr R V Redd are entitled to use of a fully expensed company-owned vehicle. All other executive Directors are entitled to a company car cash allowance as determined by the Remuneration Committee.

(3) A C Gingell resigned from the Board on 3 May 2000.

(4) R V Redd resigned from the Board on 14 July 2000.

(5) Other benefits: Other benefits are calculated in terms of taxable values in the UK.

(6) C G Hurst joined the Board on 2 October 2000.

(7) Included in the remuneration of A C Gingell is a payment of £100,260 in respect of early termination of his contract at the request of Zotefoams plc.

DIRECTORS' SHAREHOLDINGS The beneficial interests of the Directors (including persons connected with them within the meaning of Section 346 of the Companies Act 1985) in the ordinary shares of the Company is set out below:

Number of ordinary 5p shares at:	**31 December 2000**	31 December 1999
W H Fairservice	**1,108,392**	1,112,615
A Eldrett	**993,358**	1,004,863
M P Lewsey	**1,435,912**	1,433,727
D B Stirling	**20,510**	18,071
I M Buckley	**20,000**	20,000
J C Marley	**40,208**	40,208
C G Hurst	—	—

There have been no changes to Directors' interests between the end of the financial year and the date of this report. Directors with shareholdings in excess of 3% as at 31 December 2000 were M P Lewsey (4.0%), and W H Fairservice (3.1%).

SHARE OPTIONS

Options over ordinary shares granted:

Date from	As at 31 December 1999	Granted	Lapsed	As at 31 December 2000	Exercise price	Exercisable	Expiry date
W H Fairservice	10,582	—	—	10,582	163p	1.8.2000	31.1.2001
M P Lewsey	10,582	—	—	10,582	163p	1.8.2000	31.1.2001
A Eldrett	9,027	—	—	9,027	108p	1.10.2001	1.4.2002
D B Stirling	9,027	—	—	9,027	108p	1.10.2001	1.4.2002
D B Stirling	*32,085*	—	—	*32,085*	*93.5p*	*23.2.2002*	*22.2.2009*

UK resident Directors and UK-based employees of the Company with a contractual working week of at least 20 hours and at least one year's service are eligible to participate in Zotefoams' Savings Related Share Option Scheme. Directors' interests are set out above.

The option shown in italics of 32,085 shares for D B Stirling has been granted under an Inland Revenue Approved Share Option Scheme. This option is not exercisable unless the Group's earnings per share, before exceptional items, increases over a three year period by at least 6% in excess of the increase in the Retail Price Index over the same period.

There have been no changes in options granted between the end of the year and the date of this report.

No options have been granted under the Zotefoams' Employee Share Option Scheme. The middle market quoted share price at 31 December 2000 was 79.5p and the high and low prices during the year were 137.5p and 74.5p respectively.

By order of the Board

J C MARLEY Non-Executive Director and Chairman of the Remuneration Committee
23 February 2001

corporate governance

The Directors are fully aware of the provisions contained in the Combined Code: Principles of Good Governance and Code of Best Practice. The principles set out in Section 1 of the Combined Code have been applied consistently throughout 2000 as follows.

BOARD COMPOSITION AND RESPONSIBILITY At the beginning of 2000 the Board structure composed six executive Directors and three independent, non-executive Directors. W H Fairservice serves as the part-time Chairman and J C Marley as the senior independent Director.

A C Gingell resigned from the Board in May 2000 and was replaced as Managing Director by D B Stirling.

R V Redd resigned from the Board in July 2000.

C G Hurst was appointed to the Board in October 2000.

There were no changes in the non-executive Directors during the course of the year.

Membership of various Board committees is disclosed in the Directors and advisers section of the annual report.

Appointments to the Board are proposed by a Nominations Committee and approved by majority vote of the full Board. Re-election is required at the first Annual General Meeting following appointment and at least every three years thereafter.

On average there are seven Board meetings scheduled each year. In 2000 six Board meetings were held, and attendance by the Directors at these meetings was over 90%. A formal schedule of matters which require Board approval is in place. Each month all Directors receive management reports and briefing papers in relation to Board matters.

All the Directors have access to the Company Secretary and independent professional advice at the Company's expense if required for the furtherance of their duties. Training is provided for all new Directors and is available subsequently in order to fulfil the requirements of being a Director of a listed plc.

DIRECTORS' REMUNERATION The principles and details of remuneration policy for Directors are set out in the Report of the Board on Directors' remuneration.

RELATIONS WITH SHAREHOLDERS Meetings with institutional shareholders are held twice a year following announcement of the Group's interim and final results. Other meetings may be held at institutional shareholder request.

The Board considers the annual report and financial statements and Annual General Meeting to be the primary vehicles for communication with private investors. Our corporate website www.zotefoams.com contains information on the Company.

ACCOUNTABILITY AND AUDIT The Audit Committee, chaired by I M Buckley, meets at least twice a year. The Committee has written terms of reference which comply with the Combined Code. It assists the Board in ensuring appropriate methods of internal financial control are adopted and that the Group's annual report and other published information comply with the relevant statutory requirements. Meetings are attended, at the invitation of the Committee, by the Managing Director, Finance Director and a representative from KPMG Audit Plc.

STATEMENT ON COMPLIANCE The Company is required to report on compliance with the detailed requirements of the Combined Code.

In relation to all provisions of the Combined Code other than those mentioned, the Company complied throughout the period under review. Where non-compliance is reported, the reasons for non-compliance are explained.

The Board has considered the requirement for the performance-related element of remuneration to form a significant proportion of the total remuneration package of executive Directors as required under provision B.1.4. It has therefore proposed a bonus and share option scheme which has been described in more detail in the Report of the Board on Directors' remuneration. The executive share option scheme applies to those Directors who were not part of the Management Buy-Out. The Board believes that the interest of those executive Directors who participated in the Management Buy-Out of the Company in 1992 and who retain significant interests in the shares of the Company are aligned with the interests of other shareholders.

INTERNAL CONTROL The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Combined Code introduced a requirement that the Directors review the effectiveness of the Group's system of internal controls. This extends the existing requirement in respect of internal financial controls to cover all controls including financial, operational, environmental, health and safety, compliance and risk management.

Guidance for Directors on the Combined Code (the Turnbull guidance) became operational for the accounting period ending 31 December 2000.

INTERNAL CONTROL (CONTINUED) The Board confirms it has established a system of procedures and controls to ensure compliance with the Combined Code. This system was tested by the fire on the Company's Croydon site in October 2000 and the Board was pleased with the ability of the Company to recover from a potentially difficult situation. Attention at the end of 2000 however, was necessarily directed to dealing with the impact of the fire and the resulting immediate business risks. In 2001 the Board will focus again on wider business risks and their management.

Key elements of the Group's system of internal financial controls are as follows:

CONTROL ENVIRONMENT The Group is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations throughout the world. The Group has adopted a Code of Business Conduct, approved by the main Board, which provides practical guidance for all staff. This guidance is included in the employee handbook and incorporated into an induction process which all employees must complete.

The Group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Group objectives. Overall business objectives are set by the Board and communicated through the organisation. Lines of responsibility and delegations of authority are documented.

RISK IDENTIFICATION Group management are responsible for the identification and evaluation of key risks applicable to their areas of business. These risks are assessed on a continual basis and may be associated with a variety of internal or external sources including control breakdowns, disruption in information systems, competition, natural catastrophe and regulatory requirements.

INFORMATION AND COMMUNICATION Strategic reviews which include consideration of long-term financial projections and the evaluation of business alternatives are held annually. Annual budgets are a key part of the planning process and performance against plan is actively monitored at Board level supported by quarterly forecasts. Actual operating performance is made available to all Directors monthly, and forecasts are presented to the Board quarterly.

Through these mechanisms, Group performance is continually monitored, risks identified in a timely manner, their financial implications assessed, control procedures re-evaluated and corrective actions agreed and implemented.

CONTROL PROCEDURES The Group has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties, reviews by management, and external audit to the extent necessary to arrive at their audit opinion. As executive Board members are in close proximity to Group operations, an internal audit function covering financial control is not considered necessary at this time. However an internal audit function does exist to ensure compliance with procedures for environmental, quality and health and safety procedures.

A process of control self-assessment and hierarchical reporting has been established which provides for a documented and auditable trail of accountability. These procedures are relevant across Group operations and provide for successive assurances to be given at increasingly higher levels of management and, finally, to the Board. Planned corrective actions are independently monitored for timely completion.

MONITORING AND CORRECTIVE ACTION There are clear and consistent procedures in place for monitoring the system of internal financial controls. The Audit Committee meets at least twice a year and, within its remit, reviews the effectiveness of the Group's system of internal financial controls. The Committee receives reports from external auditors and management.

statement of directors' responsibilities

The following statement, which should be read in conjunction with the auditor's report, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

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 Company and Group and of the profit or loss for that period. In preparing those 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which 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 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

report of the auditors to the members of Zotefoams plc

We have audited the financial statements on pages 26 to 40.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS The Directors are responsible for preparing the annual report. As described on page 24 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on page 22 and 23 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
23 February 2001

consolidated profit and loss account

for the year ended 31 December 2000

	Note	2000 £000	2000 £000	1999 £000	1999 £000
Turnover – continuing operations	2		**20,828**		22,426
Cost of sales			**(14,265)**		(12,843)
Gross profit			**6,563**		9,583
Distribution costs			**(2,037)**		(1,945)
Administrative expenses			**(2,175)**		(1,932)
Operating profit – continuing operations			**2,351**		5,706
(Loss) on disposal of fixed assets – continuing operations			**(94)**		—
Profit on ordinary activities before interest and tax			**2,257**		5,706
Interest receivable	5		**93**		76
Interest payable and similar charges	6		**(42)**		(9)
Profit on ordinary activities before taxation	3		**2,308**		5,773
Tax on profit on ordinary activities	7		**(557)**		(1,704)
Profit for the financial year	9		**1,751**		4,069
Equity dividends – paid		**(906)**		(906)	
Equity dividends – proposed		**(1,813)**		(1,813)	
Total dividends paid and proposed	8		**(2,719)**		(2,719)
Retained (loss)/profit for the financial year	19		**(968)**		1,350
Earnings per ordinary share	8		**4.8p**		11.2p
Diluted earnings per ordinary share	8		**4.8p**		11.2p

consolidated statement of total recognised gains and losses

for the year ended 31 December 2000

	2000 £000	1999 £000
Profit for the financial year	**1,751**	4,069
Currency translation differences on foreign currency net investments	**52**	16
Total recognised gains and losses relating to the year	**1,803**	4,085

consolidated balance sheet

at 31 December 2000

	Note	2000 £000	2000 £000	1999 £000	1999 £000
Fixed assets					
Intangible assets	10	–		27	
Tangible assets	11	**30,112**		28,034	
			30,112		28,061
Current assets					
Stocks	13	**2,148**		2,487	
Debtors	14	**5,889**		4,858	
Cash at bank and in hand		**1,518**		2,975	
		9,555		10,320	
Creditors: amounts falling due within one year	15	**(7,349)**		(5,411)	
Net current assets			**2,206**		4,909
Total assets less current liabilities			**32,318**		32,970
Creditors: amounts falling due after more than one year	16		**(433)**		(36)
Provisions for liabilities and charges	17		**(3,742)**		(3,875)
Net assets			**28,143**		29,059
Capital and reserves					
Called-up share capital	18, 19		**1,813**		1,813
Share premium account	19		**13,707**		13,707
Capital redemption reserve	19		**5**		5
Profit and loss account	19		**12,618**		13,534
Total shareholders' funds – equity	20		**28,143**		29,059

These financial statements were approved by the Board of Directors on 23 February 2001 and were signed on its behalf by:

W.H. Fairservice

W H FAIRSERVICE Chairman

C G HURST Finance Director

company balance sheet

at 31 December 2000

	Note	2000 £000	2000 £000	1999 £000	1999 £000
Fixed assets					
Intangible assets	10	**–**		27	
Tangible assets	11	**24,107**		25,773	
Investments	12	**255**		255	
			24,362		26,055
Current assets					
Stocks	13	**1,917**		2,215	
Debtors	14	**11,132**		6,204	
Cash at bank and in hand		**1,254**		2,575	
		14,303		10,994	
Creditors: amounts falling due within one year	15	**(6,893)**		(4,905)	
Net current assets			**7,410**		6,089
Total assets less current liabilities			**31,772**		32,144
Creditors: amounts falling due after more than one year	16		**(433)**		(36)
Provisions for liabilities and charges	17		**(3,759)**		(3,803)
Net assets			**27,580**		28,305
Capital and reserves					
Called-up share capital	18, 19		**1,813**		1,813
Share premium account	19		**13,707**		13,707
Capital redemption reserve	19		**5**		5
Profit and loss account	19		**12,055**		12,780
Total shareholders' funds – equity	20		**27,580**		28,305

These financial statements were approved by the Board of Directors on 23 February 2001 and were signed on its behalf by:

W. H. Fairservice

W H FAIRSERVICE Chairman

C G HURST Finance Director

consolidated cash flow statement

for the year ended 31 December 2000

	Note	2000 £000	2000 £000	1999 £000	1999 £000
Net cash inflow from operating activities	24		**5,504**		7,688
Returns on investments and servicing of finance					
Interest received		**92**		76	
Interest paid – bank and other		**(22)**		—	
– finance leases		**(20)**		(9)	
			50		67
Taxation					
Mainstream corporation tax		**(963)**		(1,562)	
Overseas tax		**(22)**		22	
			(985)		(1,540)
Capital expenditure					
Purchase of fixed assets		**(6,139)**		(2,626)	
Sale of fixed assets		**982**		11	
			(5,157)		(2,615)
Equity dividends paid			**(2,719)**		(2,646)
Cash (outflow)/inflow before financing			**(3,307)**		954
Capital element of finance lease payments	26		**(86)**		(34)
New finance leases			**595**		—
Management of liquid resources			**1,600**		(1,600)
Decrease in cash in the year			**(1,198)**		(680)

reconciliation of net cash flow to movement in net debt/funds

for the year ended 31 December 2000

	Note	2000 £000	1999 £000
(Decrease) in cash in the year		**(1,198)**	(680)
Cash outflow from decrease			
in debt and lease finance		**86**	34
Cash used to (decrease)/increase liquid resources		**(1,600)**	1,600
Change in net (debt)/funds resulting from cash flows		**(2,712)**	954
New finance leases		**(595)**	—
Translation differences		**53**	(19)
Movement in net (debt)/funds in the year		**(3,254)**	935
Net funds at the start of the year		**2,871**	1,936
Net (debt)/funds at the end of the year	27	**(383)**	2,871

notes to the financial statements

1. ACCOUNTING POLICIES

BASIS OF PREPARATION The financial statements have been prepared in accordance with Applicable Accounting Standards, and under the historical cost accounting rules. The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements. FRS 15 (Tangible Fixed Assets) has been adopted for the first time in 2000.

BASIS OF CONSOLIDATION The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings. Profits arising on trading between Group undertakings are excluded. All companies within the Group make up their financial statements to the same date. Acquisition accounting has been used to produce the consolidated financial statements.

A separate profit and loss account dealing with the results of the parent company only has not been presented, as permitted by Section 230 of the Companies Act 1985.

TANGIBLE FIXED ASSETS AND DEPRECIATION Depreciation is provided by the Group to write off the cost less the estimated residual value of tangible fixed assets by equal annual instalments over their estimated useful economic lives as follows:

Freehold buildings	20 years
Plant and machinery	5 – 15 years
Computer equipment and vehicles	3 – 5 years

No depreciation is provided on freehold land. Licences purchased by the Group are amortised over five years.

Assets held under finance leases are depreciated over the lease term where this is shorter than the estimated useful economic life.

FOREIGN CURRENCIES Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The Company places forward exchange contracts for the majority of its overseas trade debtors. Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. The results of the overseas subsidiary undertaking are translated at the average rate of exchange ruling during the year and the differences arising in relation to the closing rate and translation of the net investment in the overseas subsidiary undertaking are dealt with directly through reserves. The assets and liabilities of the overseas subsidiary undertaking are translated at the closing exchange rate.

RESEARCH AND DEVELOPMENT EXPENDITURE Expenditure on research and development is written off against profits in the year in which it is incurred.

STOCKS Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods manufactured by the Company, cost is taken as product cost, which includes an appropriate proportion of attributable overheads.

GOODWILL Prior to 1 January 1998 goodwill relating to a business purchased was written off immediately against reserves. From 1 January 1998 the Group has adopted FRS 10 and any purchased goodwill will be capitalised and amortised to nil by equal annual instalments over its estimated useful life not exceeding 20 years.

PENSIONS The Company operates a pension scheme providing benefits based on final pensionable pay, the assets of which are held independently from those of the Company. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Company.

FINANCE LEASES Finance leases of significant fixed assets are capitalised and depreciated in accordance with the Group's depreciation policy.

The capital element of future lease payments is included under creditors. Interest is included within "interest payable and similar charges" within the profit and loss account.

OPERATING LEASES Operating leases are any other leases which are not finance leases. Rental charges in respect of operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

TAXATION The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

TURNOVER Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year.

2. TURNOVER BY GEOGRAPHICAL MARKET

	UK and Eire £000	France £000	Germany £000	Other Europe £000	North America £000	Rest of the world £000	Total £000
2000	**7,406**	**2,118**	**2,654**	**4,000**	**4,362**	**288**	**20,828**
1999	7,762	2,119	2,725	3,610	5,884	326	22,426

In the opinion of the Directors the Group is engaged in only one class of business. All turnover originates in the UK.

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2000 £000	1999 £000
Profit on ordinary activities before taxation is stated after charging:		
Amounts payable under operating leases	**86**	89
Research and development costs	**529**	388
Auditor's remuneration:		
Audit: Group and Company	**47**	45
Other fees paid to the auditor and their associates – recurring	**28**	24
– non-recurring	**18**	16
	46	40
Trading loss realised on foreign transactions	**9**	31
Depreciation and amortisation of intangibles – owned assets	**2,986**	2,046
– leased assets	**27**	34

4. STAFF NUMBERS AND COSTS The average number of persons employed by the Group (including Directors) during the year, analysed by category, were as follows:

	Number of employees 2000	1999
Production	**119**	135
Maintenance	**18**	21
Distribution and marketing	**28**	29
Administration and technical	**56**	53
	221	238

	2000	1999
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	**5,306**	5,508
Social security costs	**432**	475
Other pension costs	**419**	368
	6,157	6,351

Directors' remuneration and emoluments are dealt with on page 18 in the Report of the Board on Directors' Remuneration.

notes to the financial statements

5. INTEREST RECEIVABLE

	2000 £000	1999 £000
Interest on bank deposits	**93**	76

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2000 £000	1999 £000
On bank overdrafts	**22**	—
On finance leases	**20**	9
	42	9

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2000		1999	
	£000	£000	£000	£000
UK corporation tax at 30% (1999: 30%)	**744**		1,534	
Overseas taxation	**35**		1	
Adjustment to prior year tax charge	**(89)**		—	
Current taxation		**690**		1,535
Deferred taxation		**(133)**		169
		557		1,704

8. DIVIDENDS AND EARNINGS PER SHARE

	2000 £000	1999 £000
Interim dividend of 2.5p (1999: 2.5p) net per ordinary share	**906**	906
Proposed final dividend of 5.0p (1999: 5.0p) net per ordinary share	**1,813**	1,813
	2,719	2,719
Dividends per ordinary share	**7.5p**	7.5p

EARNINGS PER ORDINARY SHARE Earnings per ordinary share is calculated by dividing profit after tax of £1,751,000 (1999: £4,069,000) by the weighted average number of shares in issue during the year. Diluted earnings per ordinary share adjusts for the potential dilutive effect of share option schemes in accordance with FRS 14.

	2000	1999
Average number of ordinary shares issued	**36,255,772**	36,255,772
Deemed issued for no consideration	**2,071**	132,628
Diluted	**36,257,843**	36,388,400

8. DIVIDENDS AND EARNINGS PER SHARE (CONTINUED)

Shares deemed issued for no consideration have been calculated based on the potential dilutive effect of the three save as you earn share option schemes and options granted under an Inland Revenue Approved Share Option Scheme:

Date from which exercisable	Exercise price £	Average number of shares under option 2000	1999
1 August 2000	1.63	—	81,805
1 October 2000	1.70	—	8,289
1 October 2001	1.08	**317,973**	398,652
23 February 2002	0.935	**32,085**	64,170

The average fair value of one ordinary share during the year was considered to be £0.9995 (1999: £1.1650).

9. PROFIT FOR THE FINANCIAL YEAR

The profit after tax for the financial year includes a profit of £1,994,000 (1999: £3,845,000) dealt with in the accounts of the parent company.

10. INTANGIBLE FIXED ASSETS

	Group and Company 2000 £000	1999 £000
Licences	—	27

At 31 December 1999 the Company owned licences with a cost of £170,000 and a net book value of £27,000. Amortisation of £27,000 (1999: £10,000) was charged on these licences as they were deemed to have no carrying value.

11. TANGIBLE FIXED ASSETS

	Freehold land and buildings £000	Plant and machinery £000	Computer equipment and vehicles £000	Total £000
The Group				
Cost				
At 1 January 2000	7,639	29,394	955	37,988
Additions	3,247	2,093	799	6,139
Disposals	(91)	(1,782)	(127)	(2,000)
At 31 December 2000	10,795	29,705	1,627	42,127
Depreciation				
At 1 January 2000	838	8,417	699	9,954
Charge for the year	230	2,615	141	2,986
On disposals	(37)	(803)	(85)	(925)
At 31 December 2000	1,031	10,229	755	12,015
Net book value				
At 31 December 2000	**9,764**	**19,476**	**872**	**30,112**
Net book value of assets held under finance leases included in above	—	—	600	600
At 31 December 1999	6,801	20,977	256	28,034
Company				
Cost				
At 1 January 2000	6,787	27,803	930	35,520
Additions	11	1,180	814	2,005
Disposals	(91)	(1,629)	(141)	(1,861)
At 31 December 2000	6,707	27,354	1,603	35,664
Depreciation				
At 1 January 2000	838	8,161	748	9,747
Charge for the year	230	2,277	138	2,645
On disposals	(37)	(665)	(133)	(835)
At 31 December 2000	1,031	9,773	753	11,557
Net book value				
At 31 December 2000	**5,676**	**17,581**	**850**	**24,107**
Net book value of assets held under finance leases included in above	—	—	600	600
At 31 December 1999	5,949	19,642	182	25,773

Freehold land and buildings in the Group include £7,774,000 (1999: £4,847,000) of depreciable assets. Freehold land and buildings in the Company include £4,533,000 (1999: £4,847,000) of depreciable assets.

12. FIXED ASSET INVESTMENT

	Company 2000 £000	Company 1999 £000
Shares in Group undertakings – at cost	**255**	255

The investment consists of the entire ordinary share capital of Zotefoams International Limited, incorporated in the United Kingdom.

The following is a complete list of the subsidiary undertakings of the company, all of which are 100% owned:

Zotefoams International Limited

Zotefoams Inc.

Zotefoams Fabrications Limited

All the limited companies are incorporated in the United Kingdom, with the exception of Zotefoams Inc. which is incorporated in the USA.

In the opinion of the Directors the investments in the Company's subsidiary undertakings are worth at least the amount at which they are stated in the balance sheet.

13. STOCKS

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Raw materials and consumables	**1,085**	933	**1,085**	933
Work in progress	**503**	549	**503**	549
Finished goods and goods for resale	**560**	1,005	**329**	733
	2,148	2,487	**1,917**	2,215

Work in progress, finished goods and goods for resale include £305,000 (1999: £488,000) of overheads.

14. DEBTORS

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Amounts falling due within one year:				
Trade debtors	**4,452**	4,703	**3,350**	3,480
Amounts owed by Group undertakings	**–**	–	**6,477**	2,579
Other debtors	**1,394**	129	**1,262**	119
Prepayments and accrued income	**43**	26	**43**	26
	5,889	4,858	**11,132**	6,204

The Group has credit insurance in place which protects approximately 85% (1999: 82%) of the Group trade debtors shown above.

Other debtors for the Group and Company includes £0.9 million owed by insurers in respect of the fire at the Company's Croydon site on 22 October 2000. This amount is made up of stock destroyed in the fire of £1.2 million, the net book value of fixed assets destroyed in the fire of £0.9 million, other costs incurred subsequent to the fire of £0.8 million less an interim receipt from our insurers in 2000 of £2 million.

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group				Company			
	2000		1999		2000		1999	
	£000	£000	£000	£000	£000	£000	£000	£000
Bank overdrafts		**1,329**		41		**1,275**		—
Trade creditors		**1,926**		1,185		**1,725**		1,004
Amounts owed to subsidiary undertakings		**—**		—		**100**		—
Other creditors including taxation and social security:								
Mainstream corporation tax	**612**		906		**595**		950	
Other taxation and social security	**133**		128		**132**		127	
		745		1,034		**727**		1,077
Other creditors	**170**		249		**112**		223	
Obligations under finance leases	**139**		27		**139**		27	
		309		276		**251**		250
Accruals and deferred income		**1,227**		1,062		**1,002**		761
Dividends proposed		**1,813**		1,813		**1,813**		1,813
		7,349		5,411		**6,893**		4,905

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group and Company	
	2000	1999
	£000	£000
Finance leases: amounts falling due between two and five years	**433**	36

17. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation	
	Group	Company
	£000	£000
The Group and Company		
At 1 January 2000	3,875	3,803
Release for the year in the profit and loss account	(133)	(44)
At 31 December 2000	**3,742**	**3,759**

Deferred tax is provided as follows:

	Group		Company	
	2000	1999	2000	1999
	£000	£000	£000	£000
Difference between accumulated depreciation and amortisation and capital allowances	**3,716**	3,971	**3,733**	3,898
Other timing differences	**26**	(96)	**26**	(95)
	3,742	3,875	**3,759**	3,803

Deferred tax is provided at a rate of 30% (1999: 30%).

No amount is included above for any contingent tax liability, which might arise in respect of the undistributed reserves of the Company's overseas subsidiary undertaking, which the Group does not expect to remit to the UK.

18. SHARE CAPITAL

	2000 £	1999 £
Authorised		
At 31 December		
Equity: 56,000,000 ordinary shares of 5p shares	**2,800,000**	2,800,000
Allotted, called-up and fully paid		
At 31 December		
Equity: 36,255,772 ordinary shares of 5p shares	**1,812,789**	1,812,789

19. STATEMENT OF MOVEMENTS IN RESERVES AND SHARE CAPITAL

	Profit and loss £000	Capital redemption £000	Share capital £000	Share premium £000
The Group				
At 1 January 2000	13,534	5	1,813	13,707
Other recognised gains	52	—	—	—
Retained loss for year	(968)	—	—	—
At 31 December 2000	**12,618**	**5**	**1,813**	**13,707**
The Company				
At 1 January 2000	12,780	5	1,813	13,707
Retained loss for year	(725)	—	—	—
At 31 December 2000	**12,055**	**5**	**1,813**	**13,707**

The cumulative total of goodwill written off against Group profit and loss account reserves in respect of acquisitions prior to 1 January 1998 when FRS 10 (Goodwill and Intangible Assets) was adopted amounts to:

	£000
Group	990
Company	880

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	2000 £000	1999 £000	**2000 £000**	1999 £000
Profit for the financial year	**1,751**	4,069	**1,994**	3,845
Dividends	**(2,719)**	(2,719)	**(2,719)**	(2,719)
Retained (loss)/profit for the financial year	**(968)**	1,350	**(725)**	1,126
Translation differences	**52**	16	**—**	—
Net (reduction)/addition to shareholders' funds	**(916)**	1,366	**(725)**	1,126
Opening shareholders' funds	**29,059**	27,693	**28,305**	27,179
Closing shareholders' funds	**28,143**	29,059	**27,580**	28,305

21. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Directors consider the functional currency of the Group to be sterling. No assets or liabilities which are denominated in sterling are disclosed below as their fair value is not considered to be different from their book value. The Group policy is to hedge the foreign currency cash flows of invoiced sales net of expected foreign expenditure. Hedging is achieved by the use of foreign currency contracts expiring in the month of expected cash flow.

A comparison of the book value and fair value as at 31 December 2000 is given below. Fair value of trade debtors and creditors was determined by reference to market price as at 31 December 2000 of financial assets with a similar expected cash flow profile. Foreign currency cash contracts are valued at market value. The clear relationship between book value and total fair value reflects the policy explained above and in the Finance Director's review on page 12.

The net exposure analysed by the main currency group is as follows:

	Book value £000	Fair value £000
US dollars		
Trade debtors	1,118	1,131
Trade creditors and accruals	(182)	(182)
Cash at bank	1,168	1,168
	2,104	2,117
Euros and Euro legacy currencies		
Trade debtors	1,541	1,587
Trade creditors and accruals	(490)	(492)
Foreign currency contracts	—	(69)
Cash at bank	180	180
	1,231	1,206
Other		
Cash at bank	7	7
	3,342	3,330

The analysis above includes trade debtors and creditors as the primary purpose of the foreign currency contracts is to hedge the net exposure of these items. All trade debtors and creditors and foreign currency contracts mature within six months of the balance sheet date and are not interest bearing.

Cumulative aggregate gains and losses unrecognised as at 31 December 2000:

	Gains £000	Losses £000	Net loss £000
At 31 December 2000	**73**	**(84)**	**(11)**

All gains and losses that were unrecognised at 31 December 2000 are expected to be recognised in the six months to 30 June 2001.

Foreign exchange rates used in the preparation of these financial statements are shown in the Finance Director's review on page 12.

The Group has a short-term bank facility of £5 million that may be utilised in any currency which is freely transferable and convertible into sterling. Interest is payable at floating rate plus a bank margin. This facility expires in February 2002.

22. COMMITMENTS

	2000 £000	1999 £000
(i) Capital contracts at the end of the financial year for which no provision has been made	**1,156**	1,071
(ii) The Group has annual commitments under non-cancellable operating leases which expire between two and five years:		
Other operating leases	**248**	36
(iii) As at 31 December the Group had foreign currency forward exchange contracts amounting to:	**1,364**	2,121

23. PENSION SCHEME

As explained in the accounting policies set out on page 30, the Company operates a funded pension scheme providing benefits based on final pensionable pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employee's working lives with the Company. The contributions are recommended by a qualified actuary. The most recent valuation, based on the ongoing funding method was at 6 April 1999.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the increases in pensionable salaries and dividends. Assumptions used by the actuary were as follows:

- Rate of return on investments at 7.0% per annum;
- Rate of increase in salaries at 5.0% per annum;
- Rate of dividend increase 3.75%.

Following the actuarial report, the principal employer, in agreement with the trustees of the pension fund, determined a Company contribution rate of 12% of pensionable salaries, in addition to the employee contribution of 5%. These contribution rates were effective from 1 January 2000.

The actuary in his report stated that he had tested the short-term solvency of the scheme and confirmed that an employers' contribution rate of 12% of pensionable salaries was adequate for a certificate of solvency covering a period of three years and six months from 6 April 1999.

At the date of the valuation, the market valuation of the fund was £10,652,000. Company contributions of £399,000 were charged to the profit and loss account and were paid during the year.

For US-based employees Zotefoams Inc. operates a 401(k) plan and a defined contribution pension plan to which Zotefoams Inc. contributes 6.2% of pensionable salary.

24. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000 £000	1999 £000
Operating profit	**2,351**	5,706
Depreciation charge and amortisation of licenses	**3,013**	2,086
Decrease/(increase) in stocks	**339**	(316)
(Increase)/decrease in debtors	**(1,031)**	94
Increase in creditors	**832**	19
Decrease/(increase) in provisions	**–**	99
Net cash inflow from operating activities	**5,504**	7,688

25. ANALYSIS OF THE BALANCES OF CASH AS SHOWN IN THE BALANCE SHEET

	2000 £000	1999 £000
Cash at bank and in hand	**1,518**	1,375
Liquid resources	**–**	1,600
Bank overdrafts	**(1,329)**	(41)
Balance at 31 December	**189**	2,934

Liquid resources are short-term deposits which have maturity dates of less than one year, and are included in cash at bank and in hand to the balance sheet.

26. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	2000 £000	1999 £000
Capital element of finance lease rental payments	**86**	34

27. ANALYSIS OF CHANGES IN NET (DEBT)/FUNDS

	At 1 January 2000 £000	Cashflow £000	Other non-cash movements £'000	Translation differences £000	At 31 December 2000 £000
Cash at bank and in hand	2,975	(1,510)	—	53	**1,518**
Bank overdrafts	(41)	(1,288)	—	—	**(1,329)**
Obligations under finance leases	(63)	86	(595)	—	**(572)**
	2,871	(2,712)	(595)	53	**(383)**

five year trading summary

for the year ended 31 December

	2000 £m	1999 £m	1998 £m	1997 (restated) £m	1996 (restated) £m
Turnover	**20.8**	22.4	24.2	24.4	21.4
Operating profit	**2.4**	5.7	7.3	8.0	7.2
Profit before tax	**2.3**	5.8	8.0	8.0	7.0
Profit after tax	**1.8**	4.1	5.7	5.7	4.7
Capital expenditure	**6.1**	2.7	4.3	3.3	5.9
Net cash flow from operating activities	**5.5**	7.7	9.2	9.5	8.6
Dividends per ordinary share (p)	**7.5**	7.5	7.2	6.7	6.0
Earnings per share (p)	**4.8**	11.2	15.6	15.7	12.8

financial calendar

Annual General Meeting	24 April 2001
Payment of final dividend	1 May 2001 to shareholders on the register at the close of business on 30 March 2001
Announcement of 2001 interim results	Early August 2001
Payment of interim dividend	September 2001
Announcement of 2001 results	Late February 2002

notice of 2001 annual general meeting

Notice is hereby given that the Annual General Meeting of Zotefoams plc (the "Company") will be held at the offices of Zotefoams plc, 675 Mitcham Road, Croydon CR9 3AL on Tuesday 24 April 2001 at 10.00am for the following purposes:

ORDINARY BUSINESS

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

1. To receive and adopt the audited accounts and the Directors' and auditors report for the year ended 31 December 2000.
2. To declare a final dividend for the year ended 31 December 2000 of 5.0p net per ordinary share, such dividend to be payable on 1 May 2001 to shareholders on the register at the close of business on 30 March 2001.
3. To re-elect Mr D B Stirling as a Director.
4. To re-elect Mr I M Buckley as a Director.
5. To re-elect Mr C G Hurst as a Director.
6. That the Company hereby approves and adopts a new Executive Share Option Scheme for Zotefoams plc, as summarised in Appendices I and II to the letter to Members of the Company dated 9 March 2001, in the form presented to the Annual General Meeting, and that the Directors be and are hereby authorised to do all acts and things which they may consider necessary or expediant for implementing and giving effect to the same.
7. That KPMG Audit Plc be and are hereby re-appointed as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting at which accounts are laid before the Company at a remuneration to be fixed by the Directors.
8. That the Board be and is hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Companies Act 1985) of the Company up to an aggregate nominal amount of £604,263 to such persons and on such terms as it thinks fit provided that this authority shall expire on the date of the next Annual General Meeting after the passing of this resolution or 15 months after the passing of this resolution (whichever shall be earlier) save that the Company may before such expiry make such an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired, such authority to be in substitution for any existing authorities conferred on the Board pursuant to Section 80 of the Companies Act 1985.

SPECIAL BUSINESS

9. To consider and, if thought fit, to pass the following resolution which will be proposed as a special resolution:
   That subject to the passing of resolution 8 the Board be and is hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94(2) of the said Act) for cash pursuant to the authority conferred by the previous resolution as if Section 89(1) of the said Act did not apply to any such allotment provided that this power shall be limited:
   (a) to the allotment of equity securities in connection with a rights issue or open offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as maybe) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the Directors may consider appropriate to deal with fractional entitlements or legal or practical difficulties under the laws, rules or regulations of any jurisdiction, stock exchange or other regulatory body whatsoever; and
   (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) for cash of equity securities up to an aggregate nominal value of £90,639,
   and shall expire on the date of the next Annual General Meeting of the Company after the passing of this resolution or 15 months after the passing of this resolution (whichever shall be earlier) save that the Company may before such expiry make such an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired, such authority to be in substitution for any existing authorities conferred on the Board pursuant to Section 95 of the Companies Act 1985.
10. To consider and, if thought fit, to pass the following resolution which will be proposed as a special resolution:
    That the Company be and is hereby generally and unconditionally authorised for the purposes of Section 166 of the Companies Act 1985 to make one or more market purchases (within the meaning of Section 163(3) of the said Act) on the London Stock Exchange Limited of ordinary shares of 5p each in the capital of the Company provided that:
    (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 3,625,577 (representing 10% of the Company's issued ordinary share capital);
    (b) the minimum price which may be paid for such shares is 5p per share (exclusive of expenses);

notice of 2001 annual general meeting

(c) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall not be more than 5% above the average of the market values for an ordinary share as derived from the Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary share is purchased;

(d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting or 15 months from the date of passing this resolution, if earlier; and

(e) the Company may make a contract or contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

By order of the Board

C G HURST Secretary
Registered Office
675 Mitcham Road
Croydon CR9 3AL

9 March 2001

NOTES

(i) Shareholders are entitled to attend and vote at this meeting and may appoint one or more proxies to attend and on a poll, vote instead of him. A proxy need not be a member of the Company. A form of proxy is enclosed for the use of members and must reach the office of the Registrars of the Company not less than 48 hours prior to the start of the meeting.

(ii) The appointment of a proxy will not prevent the member from subsequently attending and voting at the meeting in person.

(iii) Copies of the following will be available for inspection at the registered office of the Company, 675 Mitcham Road, Croydon CR9 3AL during normal business hours from the date of the above Notice until the date of the Annual General Meeting and at the place of the meeting for 15 minutes prior to and until the termination of the Meeting.

(a) The Register of Directors' share interests; and

(b) Copies of executive Directors' service contracts.

(iv) Only those members registered in the register of members of the Company as at 6.00pm on Thursday 12 April 2001 will be entitled to attend or vote at the meeting in respect of the number of ordinary shares of 5p registered in their respective names at that time. Changes to entries on the register after 6.00pm on Thursday 12 April 2001 will be disregarded in determining the rights of any person to attend or vote at the meeting.

designed & produced by THE DESIGN PORTFOLIO
a member of the flathill communications group plc
www.flathillplc.com

Application photographs courtesy of:
Aerotrim Westbury Limited
Canadaleg Inc.
Dunlop Oil and Marine Limited
GVG Sport Industrie
Kewell Converters Limited
MSA Manufacturing Limited
Polyformes Limited
Racletta N.V.
Tommyco Kneepads Inc.
Wilhelm Kopp Zellkautschuk

Zotefoams plc
675 Mitcham Road
Croydon
CR9 3AL
United Kingdom
Telephone: +44 (0)20 8664 1600
Telefax: +44 (0)20 8664 1616
E-mail: info@zotefoams.com
Website: www.zotefoams.com