

Zotefoams plc annual report and financial statements 2006

Registered number 2714645



**INVESTING  
DEVELOPING  
STRENGTHENING**

# CORPORATE STATEMENT

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ZOTEFOAMS IS THE WORLD'S LEADING MANUFACTURER OF CROSS-LINKED BLOCK FOAMS. OUR STRATEGY IS TO CREATE SUSTAINED PROFIT GROWTH BY EXPANDING SALES INTERNATIONALLY AND BROADENING OUR POTENTIAL MARKET WITH NEW UNIQUE PRODUCTS

ZOTEFOAMS MANUFACTURES AND SELLS HIGH-PERFORMANCE FOAMS. THESE FOAMS ARE USED AS THE RAW MATERIALS FOR A WIDE VARIETY OF APPLICATIONS IN MANY DIFFERENT MARKETS GLOBALLY.

ZOTEFOAMS ARE FOAM TECHNOLOGISTS WE OPERATE A UNIQUE PROCESS USING NITROGEN GAS AT HIGH TEMPERATURES AND PRESSURES, WHICH ALLOWS US TO PRODUCE FOAM MATERIALS BEYOND THE CAPABILITIES OF OTHER FOAMING PROCESSES

# AT A GLANCE

## AZOTE®

AZOTE® is the brand name for Zotefoams' high quality polyolefin foam family. These products are manufactured from various polyethylene-based polymers using our proprietary nitrogen expansion process.

The AZOTE® foams derive many of their exceptional properties from a combination of the polymer properties along with the use of nitrogen, an inert, odourless, tasteless and colourless gas. The term 'azote', is one French chemists will recognise as it remains in use today as the literal translation for nitrogen.

Zotefoams' widely recognised product trademarks, PLASTAZOTE®, EVAZOTE®, SUPAZOTE® and PROPOZOTE® identify the individual product type within the AZOTE® group.

## ZOTEK®

ZOTEK® foams are a range of high-performance foams manufactured, using Zotefoams' unique high-pressure nitrogen gas solution manufacturing process, from fluoropolymers, engineering polymers and speciality elastomers.

ZOTEK® F is a range of lightweight, closed-cell, foams based on the fluoropolymer Kynar® PVDF (polyvinylidene fluoride). It is a remarkable material that offers a unique balance of properties including temperature, UV and chemical resistance combined with excellent flammability performance.

ZOTEK® N is a range of lightweight, closed-cell, foams, currently in development and based on the engineering thermoplastic polyamide. The main benefits of polyamide are its thermal and chemical resistance. Polyamide is particularly resistant to swelling by hydrocarbons such as oils, which combined with its thermoplastic nature allow complex shapes to be fabricated economically.

## APPLICATIONS

MANUFACTURED USING PURE NITROGEN, OUR FOAMS HAVE SIGNIFICANT ADVANTAGES OVER COMPETITIVE PRODUCTS. ZOTEFOAMS MATERIALS ARE EASY TO PROCESS, CONSISTENT, PURE, LIGHTWEIGHT AND HAVE PLEASING AESTHETICS SUCH AS STRONG COLOURS. COMBINED WITH A CLOSED-CELL STRUCTURE WHICH PROVIDES INSULATION, BUOYANCY AND IMPACT PROTECTION, THESE FOAMS ARE IDEAL FOR MANY APPLICATIONS IN SPORTS AND LEISURE, PREMIUM PACKAGING, MEDICAL, CONSTRUCTION, AEROSPACE AND AUTOMOTIVE AS WELL AS GENERAL INDUSTRIAL AND CONSUMER PRODUCTS.

## HIGHLIGHTS

- Sales increased 7% to £30.01m.
- Operating margin, before exceptional items, increased to 9% (2005 7%).
- Profit before tax, excluding exceptional items, increased 45% to £2.67m.
- Direct sales team in place following termination of a major distribution and agency agreement in March 2006.
- Significant progress in product and business development in high-performance polymers business.

## BREAKDOWN OF TURNOVER BY MARKET SECTOR

■	Medical 9%
■	Building 8%
■	Transport 13%
■	Sports and leisure 14%
■	Industrial 18%
■	Packaging 32%
■	Other 6%

# CHAIRMAN'S STATEMENT

## SALES (£m)

			28 0	<b>30.1</b>
	23 5	25 2		
	2003	2004	2005	<b>2006</b>

### STRATEGY

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. Zotefoams' technology affords us many different opportunities with significant profit potential. To optimise these opportunities we must concentrate our own resources in key areas and leverage our unique capability where appropriate.

### OBJECTIVES

We intend to grow sales in our core polyolefin business in excess of the rate of inflation in Europe and achieve double digit percentage growth in North America and Asia. Our sales growth in America is supported by our factory in Kentucky which opened in mid-2001 while in Asia we will consider a similar operation, either under a license or as a joint venture, as sales increase to a level where such an investment is sensible. We are also committed to developing a portfolio of unique foam products from high-performance materials which will enjoy significant advantages over competitive materials. This will allow higher margins for Zotefoams and confirm our position as the pre-eminent foam technology company. We intend to achieve this growth while continuing to improve our operating margins and our return on capital employed.

**NIGEL HOWARD**  
Chairman

THE COMBINATION OF A **SOLID FOUNDATION**  
IN POLYOLEFIN FOAMS AND OPPORTUNITIES WITH  
THE DEVELOPMENT OF **HIGH-PERFORMANCE**  
MATERIALS OFFERS **EXCITING PROSPECTS**  
FOR THE FUTURE

**BOARD**

Bill Fairservice retired as Chairman of the Board on 31 December 2006. Bill led the buy-out of Zotefoams from BP in 1992 and served as Managing Director until 1999 when he took the post of Chairman. Tony Eldrett, formerly Operations and Projects Director and also a member of the original buy-out team, resigned from the Board on 31 March 2006 but remains with the Company in a part-time capacity. On behalf of the Board I would like to thank both Bill and Tony for their service and contribution over the years. On 22 February 2007 David Campbell joined the Board as a non-executive Director. I am delighted to welcome David who was previously Chief Executive of British Vita plc and is currently a non-executive Director of Fenner PLC.

**EMPLOYEES**

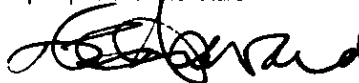
On behalf of the Board I would like to thank all our employees whose talents, efforts and dedication have combined to make 2006 a successful year.

**OUR ACHIEVEMENTS**

During 2006 we grew profit before tax and exceptional items by 45% to £2.67m (2005: £1.84m) and sales increased 7% to £30.05m (2005: £27.98m). We restructured the worldwide sales and marketing of polyolefin foams, terminating a major agency and distribution agreement and investing in additional dedicated sales staff in Europe and Asia. In high-performance polymers we have made good progress in product and business development, providing exciting prospects for the future.

**OUTLOOK**

Trading in the first two months in 2007 is in line with our expectations. We recognise that foreign exchange rates have moved adversely for our business and these will have some impact on our profitability in 2007. However, our expectation is for continued profit growth as the combination of a solid foundation in polyolefin foams combined with the very encouraging signs from our high-performance polymers offer exciting prospects for the future.



**N G HOWARD**  
Chairman  
5 March 2007

# BUSINESS REVIEW

## PROFIT (PRE-EXCEPTIONAL ITEMS) (£m)

				2.7
			1.8	
	1.0	1.3		
	2003	2004	2005	2006

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, building, marine and the military.

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

### BUSINESS OVERVIEW

Zotefoams considers its business falls into two distinct categories: polyolefin foams and high-performance polymers. Both businesses rely on our unique production process which uses nitrogen gas at high temperature and pressure to foam solid plastics.

Polyolefin foams are mainly made from polyethylene which, when foamed, produces a versatile material used in a wide variety of applications. Typically our products are sold to foam converters who process the foam by a variety of techniques such as cutting, welding, moulding and routing into finished or semi-finished parts based on end-user requirements. The benefits of Zotefoams' products are evident at both foam processors and end-users and include purity, consistency of processing, good performance to weight ratio and aesthetics. Key to growing this business successfully is close relationships with the converters combined with business development activities at end-users to highlight the benefits of our materials and track industry trends for future development.

DAVID STIRLING  
Managing Director

CLIFFORD HURST  
Finance Director

## ZOTEFOAMS' STRATEGY IS TO GROW OUR EXISTING BUSINESS IN POLYOLEFIN FOAMS WHILE DEVELOPING A PORTFOLIO OF HIGH-PERFORMANCE POLYMERS.

# INVESTING...

High-performance polymers use the processing technology developed for polyolefin foams applied to other materials. This is an emerging business which offers an improved return on capital in new business segments. We have developed patented and launched world leading products made from fluoropolymer and nylon which are branded ZOTEK® our high-performance foams trademark. These foams are targeted at highly technical and demanding applications in markets such as aerospace, pharmaceutical, semi-conductor and chemical processing and market development lead times are long. Timing of revenue generation is therefore difficult to predict.

### STRATEGY AND OBJECTIVES

Zotefoams' strategy is to grow our existing business in polyolefin foams while developing a portfolio of high-performance polymers. We will seek to profitably grow the business through a combination of organic growth in both polyolefin and high-performance polymers and acquisitions or partnership deals in related technologies, products or markets.

### Our stated objectives are

- 1 Grow sales in our polyolefin business in excess of the rate of inflation in Europe and achieve double digit percentage growth in North America and Asia
- 2 Develop a high-performance polymers portfolio to deliver enhanced margins
- 3 Improve our operating margins
- 4 Improve our return on capital employed

Performance in 2006 against these objectives was

### 1. Sales performance was as follows

- a Sales in the UK and Europe grew by 10% which was significantly above the average inflation rate,
- b Sales in North America grew 4% in constant currency which was below our expectations due to a slow-down in the US economy in the second half of 2006, and
- c Sales in Asia declined slightly. We view 2006 as a year of transition, exiting a regional distribution agreement and forming more direct relationships with foam converters and end-users. While we believe that Asia offers significant potential for growth, we anticipate that currently the best opportunities lie in more niche, higher added-value products and we are focusing our resources here.

### 2. Sales of high-performance polymers in 2006 were similar to 2005 with substantial progress made in three areas

- a We developed and launched three promising variants of our ZOTEK® F fluoropolymer foams in response to market feedback,
- b We developed and launched a world first nylon foam, ZOTEK® N, designed for areas where higher temperature performance is critical, and
- c Our business development activities should result in a significant uplift in demand during 2007, with confirmed orders received already in excess of 2006 sales.

### 3. Group operating margins, pre-exceptional items, improved from 7% to 9% of sales revenue

### 4. Pre-tax return on capital employed, pre-exceptional items, increased from 7% to 11%

**DIRECT SALESFORCE ENHANCED THROUGH  
RECRUITMENT IN EUROPE AND FAR EAST.  
MULTI-LINGUAL CUSTOMER SERVICE SUPPORT  
TEAM IN PLACE.  
MARKETING AND TECHNICAL RESOURCES  
DEDICATED TO HIGH-PERFORMANCE MATERIALS.**

# IN OUR PEOPLE

## Case study

### AZOTE® Foams for Automotive Components

Components manufactured from AZOTE® foams are used extensively in the automotive industry, by such leading carmakers as BMW, Daimler Chrysler and GM, for gasketing and acoustic trapping purposes

Odenwald Chemie, a Zotefoams specialist converter for the European automotive industry, has pioneered the use of AZOTE® materials in the thermal moulding of complex three-dimensional shapes, often integrating fixing functionality into the component design to enable easy, time saving installation

Newly introduced ZOTEK® N, with its higher temperature performance and enhanced resistance to hydrocarbon fluids, is opening up similar applications within the engine compartment

Article and photograph in conjunction with W Kopp

Skilled technologists work with state-of-the-art equipment in product development.

Production staff continually develop knowledge on high-performance materials

Customer service combines product and logistics knowledge

## EBITDA (PRE-EXCEPTIONAL ITEMS) (£m)

				<b>6 1</b>
		5 0	5 3	
4 3				
	2003	2004	2005	2006

### FINANCIAL RESULTS

Group turnover increased by 7% to £30.05m (2005: £27.98m) and profit before tax and exceptional items increased by 45% to £2.67m (2005: £1.84m).

Our sales growth resulted from a 5% increase in volumes shipped along with the positive impact of price rises in all our major markets offset, particularly in the second six months of the year, by somewhat adverse foreign exchange rates.

On 21 March 2006 we announced the termination of the Group's commercial relationships with the Sekisui Chemical Company Ltd and subsidiaries ("Sekisui") which sold Zotefoams' polyolefin products as an agent in Continental Europe and North America and as a distributor in Asia. The costs of this termination are shown as an exceptional charge of £1.10m.

Group gross profit margin increased to 26% of sales revenue (2005: 23%) despite an 11% rise in basic polymer prices and a 26% increase in energy costs compared with last year, with benefits from commission savings following the termination of the Sekisui relationship and better operational efficiency.

Distribution costs increased by 11% as we increased our own sales resources following the termination of the commercial agreement with Sekisui. Administrative expenses, include a foreign exchange loss of £147,000 (2005: gain of £111,000).

The overall effective tax rate is 23% (2005: 26%) as shown in note 7 on page 49 of the financial statements.

### Earnings per share and Dividend

Group earnings per share after exceptional items were 3.4p (2005: 6.7p). The Directors are recommending the final dividend is maintained at 3.0p per share payable on 24 May 2007 to shareholders on the Company register at 27 April 2007. This would bring the total dividend to 4.5p per ordinary share for the year (2005: 4.5p).

### Cash Flow

Cash generated from operations was £4.72m (2005: £4.06m). Capital expenditure of £2.64m was higher than in recent years with the refurbishment of one of our large high-pressure vessels and the purchase of a nylon extruder. After the dividend payment of £1.63m this left us with a cash outflow of £0.36m, increasing net debt to £1.43m (2005: £1.07m). Gearing remains low at 6% (2005: 4%).

### MARKETS AND OPERATIONS

In 2006 overall sales grew 7% to £30.05m (2005: £27.98m).

Our high-performance polymers are unique foams for technically demanding requirements. They offer properties such as improved chemical, flammability or temperature performance compared to other foam materials. The applications for these products are often much larger in value than a typical polyolefin foam application, however the performance requirements and test conditions are very demanding and evaluation can take many months or sometimes years. Therefore the inherent uncertainty of such projects, particularly their timing and the unique requirements of specific applications which will vary from project to project, makes projecting revenues and success rates extremely difficult, especially at this early stage of their development. In 2006 high-performance polymers accounted for 2% of Group sales. We continued to increase both technical and marketing resource, the additional investment appropriate to the potential size and profitability of this segment, and during the year good progress was made on the launch of new grades and development of applications, particularly in the aerospace and high-performance insulation markets.

**GROUP GROSS PROFIT MARGIN INCREASED TO 26% OF SALES REVENUE AS WE BENEFITED FROM INCREASED LEVELS OF TURNOVER.**

# DEVELOPING...

The polyolefin foams business grew to £29.56m (2005: £27.42m). The UK, which we generally regard as our most mature market, performed well with a 3% sales increase. Continental Europe, which required the most significant sales team restructuring after the termination of the Sekisui relationship, grew 14% with particularly pleasing growth in Germany, Italy and the Benelux markets. North America, which was affected by a weak economy in the second six months, grew by 4%.

The termination of the Sekisui relationship in polyolefin foams marked a significant change in Zotefoams' approach to our customers in Europe and, on a smaller scale, in Asia. We have now completed the recruitment and training of a direct sales organisation across all product lines worldwide which is giving us better visibility and influence over business development activities in many markets. We expect the termination cost of £1.10m, which is shown as an exceptional charge, and the ongoing costs of establishing and operating our own sales team will be more than offset by the end of 2007 through a reduction in commissions payable to the Sekisui Group.

At our Croydon site we continue to invest to enhance both production capacity and capability. During 2006 we spent £2.64m on capital expenditure. Major projects included installing a new extrusion line to support the launch of our ZOTEK® N nylon foams and completing the refurbishment and upgrade of one of our large high-pressure vessels where we had discovered corrosion. This reduces to approximately 26% the proportion of our high-pressure capacity which operates on a water-cooling mechanism where corrosion may be present and as part of an ongoing programme to address this we are currently refurbishing a further vessel which is due to be reinstated during the second half of 2007.

## RISKS AND UNCERTAINTIES

Zotefoams' business and share price may be affected by a number of risks, not all of which are in our control. Zotefoams has a process by which such risks are identified, assessed and managed and this is set out in the Corporate Governance Report.

Sections of the annual report contain forward looking statements, including statements relating to future demand for the Group's products, research and development, liquidity and cash resources. These forward looking statements involve risks and uncertainties, because they relate to events that may or may not occur in the future.

Zotefoams' management believe the specific risks which are set out below are the principal risks, as identified under our risk management process, which could affect our profits, assets and reputation. However, other risks may also adversely affect the Group. Accordingly actual results may differ materially from anticipated results because of a variety of risk factors including changes in global, political, economic, business, competitive and market forces, changes in legislation and tax rates, future business combinations or disposals, relations with customers and customers credit risk, events affecting international security, including global health issues and terrorism, changes in the regulatory and safety environment and the outcome of litigation.

## Operational Disruption

Zotefoams' business is dependent on the ongoing operation of manufacturing facilities. Any significant operational disruption could impact our ability to manufacture and supply products.

The Directors consider the Company's extensive Safety, Health and Environment ("SHE") policies and procedures to be the main mitigating controls around these risks. These are described in more detail in the Corporate and Social Responsibility Report on page 29. The Group also holds insurance which is designed to cover capital reinstatement and loss of profits in the event of operational disruption caused by certain events.

**IMPROVED INFORMATION SHARING AND  
TRANSPARENCY IN OUR SUPPLY CHAIN.**

**CLOSER RELATIONSHIPS WITH CONVERTER  
CUSTOMERS ON PROJECT DEVELOPMENT.**

**ZOTEFOAMS HAS INCREASED FOCUS ON  
MARKETING, SPECIFICATION AND APPLICATION  
DEVELOPMENT AT THE END-USER.**

# OUR PARTNERSHIPS

## Case study:

### ZOTEK® Foams for High Performance Insulation

Our ZOTEK® F high-performance foams are being evaluated in a number of demanding applications. One of the most interesting is their use in high-performance insulation which utilises the unique combination of purity with low flammability and smoke generation in closed-cell foam. This product is being launched under the brand name T-Tubes® by UFP Technologies, Inc. headquartered in Massachusetts, USA, who are a long-standing customer of Zotefoams Inc. T-Tubes® are primarily focused on customers in the pharmaceutical, semi-conductor and food and drink industries.

Many products are designed for specific applications

Scheduling of these products through the plant is a balance of efficiency and customer service

# BUSINESS REVIEW CONTINUED

## RESEARCH AND DEVELOPMENT COSTS (£000)

				924
		734	776	
635				
	2003	2004	2005	2006

### RISKS AND UNCERTAINTIES CONTINUED

We use pressure equipment which is operated under the Pressure Systems Safety Regulations 2000 and SAFed ("best practice" system) which requires systematic internal and frequent external inspections

#### Supply Chain Disruption

Certain raw materials are currently only available from single sources. Inability to source these materials may result in an inability to supply products to our customers.

Zotefoams seeks wherever practical to purchase materials from more than one source but the highly specified nature of our product lines means this is not always possible. We therefore monitor the situation closely and maintain "desk-top" studies of alternate materials which may be offered to our customers as substitutes.

#### Technological Change and Competitor Activity

Market demand for our products depends, in part, on availability of suitable alternatives. Any significant change in competitor activity or a technological change which brings new or enhanced products to the market may result in a change in demand for our products.

Zotefoams maintains close contacts with existing customers and end-users to understand market activity and trends and has a constant flow of product variants developed for specific projects to maintain and enhance our position with our customers. We are developing a portfolio of high-performance polymers which are unique and protected by both patents and process capability. We believe these products will open up new markets with a significant and lasting differential advantage for the Group.

#### Foreign Exchange

Zotefoams mainly sells in the local currencies of the customer and in 2006 approximately 75% of our revenue was in currencies other than sterling, particularly euros and US dollars. Our manufacturing assets and costs, including capital expenditure, are substantially in the UK and therefore sterling denominated, although we do have US dollar costs associated with our facility in Kentucky, USA and the majority of our raw material purchases are denominated in euros. The net impact of this is that we generate surpluses in euros and US dollars which we convert to sterling.

We manage this risk firstly by converting all purchases to either euros or US dollars wherever sensible. This reduces our net exposure and transaction costs of converting from one currency to another. The Group hedging policy to deal with the remaining risk is set out in note 20 of the financial statements.

#### Pensions Liabilities

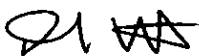
Zotefoams plc operates a Defined Benefit Pension Scheme (the "Scheme") with retirement benefits being based on final salary. The value of scheme liabilities and assets as at the last actuarial valuation, along with the assumptions used in this valuation, are disclosed in note 22 of the financial statements. Any change in the assumptions used or where the actual outcome varies from these assumptions may have a significant effect on the liabilities or assets which, ultimately, may be the responsibility of the Company.

AT OUR CROYDON SITE WE **CONTINUE TO INVEST** TO ENHANCE BOTH PRODUCTION CAPACITY AND CAPABILITY.

ZOTEFOAMS' TECHNOLOGY AFFORDS US MANY DIFFERENT OPPORTUNITIES WITH **SIGNIFICANT PROFIT POTENTIAL.**

# STRENGTHENING...

We have taken steps to minimise the risk to the Company by closing the Scheme to new members in 2001 and closing it to future accrual of benefits in 2005. In 2005 the Company agreed with the Trustees to pay £50,000 per month into the Scheme from January 2006 until December 2010 which, based on actuarial projections under assumptions made then, is designed to eliminate the projected deficit in the Scheme on an ongoing actuarial valuation basis.



**D B STIRLING**  
Managing Director  
5 March 2007



**C G HURST**  
Finance Director  
5 March 2007

**BRAND IDENTITY FURTHER DEVELOPED UNDER  
TRADEMARKED AZOTE® AND ZOTEK® BRANDS.  
LITERATURE AND MARKETING PROGRAMMES  
TARGETING END-USERS IN SPECIFIC SEGMENTS.  
BRAND STRATEGY FOCUSED ON PROMOTING  
END-USER BENEFITS VIA GLOBAL FOAM  
CONVERTER NETWORK.**

# OUR BRAND

## Case study.

### AZOTE® Foams for Healthcare Protection

Hip fracture affects more than 70,000 people each year in the UK alone and with remedial treatment costing in excess of £850 million it places a significant burden on the country's medical resources

SAFEHIP® from the Tytex Group is an external hip protection aid designed to reduce the incidence of hip fractures for elderly who fall or are at risk for falling

An EVAZOTE® component, manufactured by Zotefoams' specialist converter ABB Akesson & Co, is central to a new variant, SAFEHIP® with Soft shield. This unique design combines function with enhanced comfort and has demonstrated impressive results in both impact energy dispersion and absorption

Targeted marketing and technical support are key to maintenance and development of our brands

Process control ensures a quality product, the foundation of a successful brand

# DIRECTORS AND ADVISERS

**NIGEL HOWARD BSc ARCS\* #**

**Non-executive Chairman and Chairman of the Nominations Committee, age 61**

Joined the Board in January 2006 and was appointed Chairman in January 2007. Previously a Director of Morgan Crucible Plc where he worked for over 36 years in a number of roles including Interim Chief Executive.

He is a non-executive Director of Alliance One International Inc which is listed on the New York Stock Exchange and is a graduate of Harvard Business School ISMP Program.

**DAVID STIRLING BSc CA MBA MSc**

**Managing Director, age 40**

Joined Zotefoams plc in September 1997 as Finance Director. Appointed Managing Director in May 2000. Previously with BICC plc, Price Waterhouse in USA and Poland and KPMG. A graduate of Warwick and London Business Schools.

**CLIFFORD HURST BA FCA MCT**

**Finance Director and Company Secretary, age 44**

Joined Zotefoams plc 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.

He is non-executive Vice Chair of Harrow College of Further Education.

**CHRIS RYAN BSC FICHEME CENG\*†#**

**Non-executive Director and Chairman of the Remuneration Committee, age 60**

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

**ROGER LAWSON FCA\*†#**

**Senior independent non-executive Director and Chairman of the Audit Committee, age 61**

Appointed to the Board in December 2002  
Previously a Director of 3i plc and a former President of the Institute of Chartered Accountants in England and Wales

He is a non-executive Director of a number of unlisted Companies and a Trustee of the Thalidomide Trust

**DAVID CAMPBELL BA FCIPO\*†#**

**Non-executive Director, age 56**

Appointed to the Board in February 2007  
Previously Chief Executive of British Vita plc where he worked for over 30 years

He is a non-executive Director of Fenner plc

\* Member of the Remuneration Committee

† Member of the Audit Committee

# Member of the Nominations Committee

**REGISTERED OFFICE**

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Croydon CR9 3AL

**REGISTERED NUMBER**

2714645

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London E14 5HP

**SOLICITORS**

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**CORPORATE BROKERS**

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# DIRECTORS' REPORT

The Directors present their annual report and audited financial statements for the year ended 31 December 2006

## PRINCIPAL ACTIVITY

The Group's principal activity is the manufacture and distribution of cross-linked block foams

## BUSINESS REVIEW

The Company is required by the Companies Act to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2006 and of the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group. The information that fulfils this requirement can be found within the Business Review on pages 6 to 15.

## RESULTS AND DIVIDENDS

Profit attributable to shareholders for the year amounted to £1.2m (2005: £2.4m). An interim dividend of 1.5p (2005: 1.5p) per share was paid on 28 September 2006. The Directors recommend that a final dividend of 3.0p (2005: 3.0p) per share be paid on 24 May 2007 to shareholders who are on the Company's register at the close of business on 27 April 2007. This makes a total dividend of 4.5p per share for the year (2005: 4.5p).

## DIRECTORS

All the current Directors named on pages 18 to 19 served throughout the year apart from D A Campbell who joined the Board on 22 February 2007. In addition A Eldrett was a Director until 31 March 2006 and W H Fairservice until 31 December 2006. The Directors retiring by rotation at the Annual General Meeting ('AGM') are C G Hurst and D B Stirling who, being eligible, offer themselves for re-election. Both C G Hurst and D B Stirling have service contracts which are terminable on twelve months' written notice. D A Campbell, who was appointed a Director since the last AGM, being eligible, also offers himself for re-appointment at the AGM. Biographical details of C G Hurst, D B Stirling and D A Campbell can be found in the section on Directors and Advisers on pages 18 to 19.

The Company has granted indemnities in favour of Directors under Deeds of Indemnity. The Deeds came into force from February 2007 and remain in force as at the date of this report. The Deeds and the Company's Articles of Association are available for inspection during normal business hours at the Company's registered office and will be available at the AGM.

## EMPLOYEES

To ensure employee welfare, the Group 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. The Company operates to a number of recognised industry standards including Quality (ISO 9001), Environmental (ISO 14001) and Occupational Health and Safety (OHSAS 18001) approvals.

Further details of the Group's employment policies, including its policy regarding the employment of disabled people are set out in the Corporate Social Responsibility Report on page 29.

## SUBSTANTIAL SHAREHOLDINGS

As at 2 March 2007, the Company had received notice of the following material interests of 3% or more in the issued ordinary share capital:

	Ordinary share of 5 Op	Percentage of issued share capital
Schroder Investment Management	4,417,325	12.16%
Liontrust Asset Management Ltd	4,029,608	11.09%
Alveo AG (a subsidiary of Sekisui Chemical Co Ltd)	3,465,762	9.54%
DWS Investment GmbH	2,930,777	8.07%
Third Advance Value Realisation Company Limited	1,854,192	5.11%

The holding held by Schroder Investment Management includes beneficial and non-beneficial interests. The non-beneficial interests include holdings held on behalf of the Mineworkers Pension Scheme (2,625,000 shares, 7.23%) and British Coal Staff Superannuation Scheme (2,041,612 shares, 5.62%).

Directors' shareholdings are shown in the Directors' Remuneration Report.

## RESEARCH AND DEVELOPMENT

The amount spent by the Group on R&D in the year was £924,000 (2005: £776,000). This included work on PVDF, nylon and silicone as well as potential longer-term products in the development pipeline. In the opinion of the Directors none of this expenditure met the requirements for capitalisation in IAS 38 and it was consequently expensed in the Consolidated Income Statement.

**CREDITOR PAYMENT POLICY**

It is not Group policy to follow any standard or code of payment practice. Payment terms are agreed with suppliers when negotiating contracts or transactions. The Group aims to ensure that subject to any necessary variations which may result from supplier-related problems, the agreed payment terms are adhered to. At 31 December 2006, trade creditors of the Company represented 29 days of purchases (2005: 28 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.

At the AGM held on 16 May 2006 the Company was given authority to purchase up to 3,631,992 of its ordinary shares. This authority will expire at the 2007 AGM. Although no ordinary shares have been purchased by the Company during the period from 16 May 2006 until the date of this Report, a special resolution will be proposed at this year's AGM to renew the authority to make market purchases up to a maximum of 10% of the issued share capital of the Company.

**TREASURY AND FINANCIAL INSTRUMENTS**

Information in respect of the Group's policies on financial risk management objectives, including policies for hedging, as well as an indication of exposure to financial risk is given on page 14 and in note 20 to the financial statements.

**PENSION SCHEME**

Zotefoams plc closed its Defined Benefit Pension Scheme to future accrual of benefit in December 2005. Employees are offered membership of a Defined Contribution Pension Scheme.

**CHARITABLE AND POLITICAL DONATIONS**

The Group made US \$570 of charitable contributions and no political contributions in the year.

**DISCLOSURE OF INFORMATION TO AUDITORS**

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**AUDITORS**

A resolution to re-appoint KPMG Audit Plc as the Company's auditor will be proposed at the forthcoming AGM.

By order of the Board



**C G HURST**  
Secretary  
5 March 2007

# DIRECTORS' REMUNERATION REPORT

This report has been prepared in accordance with Schedule 7A of the Companies Act 1985. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to Directors' remuneration. As required by the Act, a resolution to approve this report will be proposed at the AGM of the Company at which the approval of the financial statements will be proposed.

The Act requires the auditor to report to the Company's members on certain parts of the Directors' Remuneration Report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Companies Act 1985. The report has therefore been divided into separate sections for audited and unaudited information.

## INFORMATION NOT SUBJECT TO AUDIT

### REMUNERATION COMMITTEE

The Company has established a Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. N G Howard, R H Lawson and C J Ryan, were members of this Committee throughout 2006 to the date of this report. D A Campbell has been a member of the Committee from 22 February 2007 to the date of this report. All the members are independent non-executive Directors apart from N G Howard, who was independent in 2006 but was appointed Chairman of the Company on 1 January 2007. N G Howard remains on the Committee as he was independent on appointment. The Committee was chaired in 2006 by N G Howard and from 1 January 2007 until the date of this report by C J Ryan.

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interest from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No Director plays a part in any discussion about his own remuneration.

In determining aspects of the Directors' remuneration for the year, the Committee consulted W H Fairservice when he was Chairman of the Company and D B Stirling (Managing Director) about its proposals. The Committee also appointed MM&K Limited, who are remuneration consultants, to provide advice on structuring Directors' remuneration packages. MM&K Limited did not provide any other services to the Company or Group.

### REMUNERATION POLICY FOR THE EXECUTIVE DIRECTORS

Executive remuneration packages are prudently designed to attract, motivate and retain Directors of the high calibre needed to maintain the Group's position as a market leader and to reward them for enhancing value to shareholders. The performance measurement of the executive Directors and key members of senior management and the determination of their annual remuneration package are undertaken by the Committee.

There are five main elements of the remuneration package for executive Directors and senior management:

- basic annual salary,
- benefits,
- annual bonus plan,
- long-term incentive schemes, and
- pension arrangements.

The Committee's policy is that a substantial proportion of the remuneration of the executive Directors should be performance related. As described below, executive Directors may earn annual incentive payments which are capped as a percentage of basic salary together with the benefits of participation in long-term incentive arrangements.

### BASIC ANNUAL SALARY

An executive Director's basic annual salary is reviewed by the Committee at the beginning of each year and when an individual changes position or responsibility. In deciding appropriate levels the Committee considers the Executive Team as a whole, individual performance and independent surveys of Directors' remuneration. The Committee's policy is to set basic annual salaries at a level below what it believes is the average market rate for the individual concerned while setting the incentive potential at a consequently higher rate. Basic annual salaries were last increased on 1 April 2006.

On 1 January 2006 the Company introduced a salary sacrifice scheme under which employees could change their contract of employment with a consequent reduction in salary in exchange for an additional Company contribution to the employees' pension scheme. In these cases bonuses and other incentive arrangements are calculated on salary prior to the reduction (bonusable salary). The reductions in salary made were 5% for A Eldrett, 7% for C G Hurst and 7% for D B Stirling. Details of the contributions made by the Company into the Defined Contribution Pension Scheme for these individuals are shown in this report within the Information Subject to Audit.

### BENEFITS

The executive Directors are entitled to receive certain benefits, principally a car allowance and private medical insurance.

### ANNUAL BONUS PAYMENTS

The Committee establishes the objectives that must be met for each financial year if a cash bonus is to be paid. In setting appropriate bonus levels the Committee refers to independent surveys of Directors' remuneration. The Committee believes that any incentive compensation awarded should be tied to the interests of the Company's shareholders and that the principal measure of those interests is profit before taxation excluding exceptional items. Executive Directors, other than the Managing Director, are also set personal objectives the non-achievement of which can restrict the bonus award made. The bonus award was capped at 50% of bonusable salary for 2006. Incentive payments under the scheme for the year ended 31 December 2006 varied between 28% and 32% of bonusable salary for the executive Directors. Profit before taxation, excluding exceptional items, increased by 45%.

The policy for 2007 and the future is for a maximum annual bonus of 100% of salary of which the Committee proposes any bonus payment over 40% of bonusable annual salary would be paid in restricted shares.

### **SHARE OPTIONS AND LONG-TERM INCENTIVES**

The Company currently does not operate any long-term incentive schemes other than the share option schemes described below. However, the Company proposes to replace the Executive Share Option Scheme with a Long-Term Incentive Plan (LTIP) for 2007 onwards and further details of this are in the accompanying circular to shareholders.

No share options were granted in 2006 under the Executive Share Option Plan as the Company had reached the limits of what could be awarded under the Plan. In 2007 it is proposed that the first award under the Long-Term Incentive Plan will be at double the normal rate in order to compensate for no awards being made in 2006.

The Committee has responsibility for supervising the operation of the Executive Share Option Scheme and the grant of options under its terms. The performance condition that the Committee has selected is growth in normalised earnings per share excluding exceptional items. This performance criterion, which applies to all executive Directors to whom options have been granted under the Scheme, was chosen because the Committee believes it best aligns this incentive with shareholder interests. The Company's policy is to phase the granting of share options by annual awards with an exercise value of up to a maximum of 1.5 times salary rather than to award them in a single large block to any individual. Options granted under the Scheme are normally exercisable no earlier than three years from the date of grant and no later than ten years from the date of the grant. The Scheme incorporates a clause so that it is agreed with the individual, before they are granted an option, that the Company will transfer its National Insurance Contributions (NICs) liability to the individual, or it will recover any NICs paid in this regard upon the exercise of an option from the individual.

UK based executive Directors and senior management have been granted share options under a Her Majesty's Revenue and Customs Approved Share Option Scheme. These options are not exercisable unless the Group's normalised earnings per share, excluding exceptional items, increases by at least six percentage points in excess of the increase in the Retail Price Index over the same period.

The exercise price of the options granted under the above schemes is equal to the market value of the Company's share price at the time when the options are granted. The executive Directors are entitled to participate provided they meet the eligibility requirements of the scheme.

### **PENSION ARRANGEMENTS**

The executive Directors are members of the Zotefoams Defined Contribution Alternative Pension Plan. Prior to 31 December 2005 the executive Directors were active members of the Zotefoams Defined Benefit Pension Scheme. However, this Scheme closed to future accrual of benefit on 31 December 2005 and after this date the executive Directors became deferred members of this Scheme.

### **PERFORMANCE GRAPH**

The following graph charts the total cumulative shareholder return (share price movements plus dividends reinvested) of the Company since January 2002. It is compared to the FTSE Small Cap Index which the Board believes is the most relevant comparison for a company of Zotefoams' size. Zotefoams plc and FTSE Small Cap Total Return Index ("TRI") re-based to 100 (January 2002 to December 2006).

### **SERVICE CONTRACTS**

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

The non-executive Directors have three year contracts which can be terminated by the Director or the Company on 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 than statutory compensation.

# DIRECTORS' REMUNERATION REPORT CONTINUED

## NON-EXECUTIVE DIRECTORS

All independent non-executive Directors have specific terms of engagement and their remuneration is determined by the Board within the limits set by the Articles of Association and based on independent surveys of fees paid to non-executive Directors of similar companies. Independent non-executive Directors cannot participate in any of the Company's share options schemes and are not eligible to join the Company's pension scheme.

W H Fairservice, the non-executive Chairman in 2006, was a former executive Director of the Company and therefore an active member of the Company Defined Benefit Pension Scheme up to 2 November 2005 when he reached 65 and became a deferred member of the scheme at that date. Company contributions to his pension arrangements ceased when he reached 65. He remains eligible for private medical insurance which was continued as a benefit when he took a non-executive role. His remuneration was set by the Remuneration Committee with reference to independent surveys of chairman positions in other similar companies and approved by the full Board excluding W H Fairservice. He remains employed by the Company on a consultancy basis, at the same rates of pay and benefits that he had as Chairman, until 30 June 2007.

## INFORMATION SUBJECT TO AUDIT DIRECTORS' EMOLUMENTS

Remuneration in £	Basic salary /fees	Operational bonus	Car allowance	Company pension contributions <sup>(4)</sup>	Other benefits <sup>(1)</sup>	Total 2006	Total 2005
A Eldrett <sup>(2)</sup>	23,600	—	2,640	5,799	545	32,584	133,792
W H Fairservice <sup>(3)</sup>	53,925	—	—	—	3,040	56,965	54,519
N G Howard	23,000	—	—	—	—	23,000	—
C G Hurst	87,488	26,854	10,561	16,678	1,191	142,772	136,032
R H Lawson	23,000	—	—	—	—	23,000	25,600
J C Marley	—	—	—	—	—	—	28,227
C J Ryan	21,000	—	—	—	—	21,000	25,059
D B Stirling	120,279	41,223	11,640	17,407	1,029	191,578	182,453
	352,292	68,077	24,841	39,884	5,805	490,899	585,682

### Note

- Other benefits are calculated in terms of taxable values in the UK.
- A Eldrett retired from the board on 31 March 2006 and reduced his working hours by 10% from this date. In 2006, following his resignation from the Board A Eldrett received £68,078 as salary, an operational bonus of £30,609, Company pension contributions of £16,729 and other benefits of £1,574.
- W H Fairservice retired from the Board on 31 December 2006.
- In 2006 the Company introduced a Defined Contribution ('DC') Pension Plan. Individuals can opt to change their contract of employment under a salary sacrifice arrangement, under which their salary is reduced and the Company makes a corresponding contribution into their DC Pension Plan. All the executive Directors have opted for the salary sacrifice scheme and the total contributions made by the Company to each individual's pension plan are shown above. None of the executive Directors made any employee contributions to the DC Pension Plan.

## DIRECTORS' SHAREHOLDINGS

The beneficial and non-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 are set out below.

Number of ordinary 5p shares	31 December 2006	31 December 2005
D A Campbell (appointed 22 February 2007)	—	—
W H Fairservice (resigned 31 December 2006)	968,880	1,087,752
N G Howard	20,000	—
C G Hurst	37,366	37,366
R H Lawson	5,000	5,000
C J Ryan	20,000	20,000
D B Stirling	40,962	40,962
	1,092,208	1,191,080

There have been no changes to Directors' interests between the end of the financial year and the date of this report.

## SHARE OPTIONS

Options over ordinary shares granted

	Scheme	As at 31 December 2005	Granted	Exercised	Lapsed	As at 31 December 2006	Exercise price	Exercisable	Expiry date
A Eldrett	HMRC SOS	37,500	—	—	37,500	—	80 Op	18 3 2006	17 3 2013
D B Stirling	HMRC SOS	37,500	—	—	37,500	—	80 Op	18 3 2006	17 3 2013
A Eldrett	Executive SOS	167,624	—	—	167,624	—	80 Op	18 3 2006	17 3 2013
C G Hurst	Executive SOS	154,403	—	—	154,403	—	80 Op	18 3 2006	17 3 2013
D B Stirling	Executive SOS	217,748	—	—	217,748	—	80 Op	18 3 2006	17 3 2013
C G Hurst	HMRC SOS	41,379	—	—	—	<b>41,379</b>	72 5p	7 4 2007	6 4 2014
A Eldrett	Executive SOS	189,589	—	—	—	<b>189,589</b>	72 5p	7 4 2007	6 4 2014
C G Hurst	Executive SOS	178,895	—	—	—	<b>178,895</b>	72 5p	7 4 2007	6 4 2014
D B Stirling	Executive SOS	246,280	—	—	—	<b>246,280</b>	72 5p	7 4 2007	6 4 2014
A Eldrett	Executive SOS	183,896	—	—	—	<b>183,896</b>	77 Op	22 12 2008	21 12 2015
C G Hurst	Executive SOS	173,863	—	—	—	<b>173,863</b>	77 Op	22 12 2008	21 12 2015
D B Stirling	Executive SOS	240,584	—	—	—	<b>240,584</b>	77 Op	22 12 2008	21 12 2015
A Eldrett	HMRC SOS	—	37,267	—	—	<b>37,267</b>	80 5p	27 03 2009	26 03 2016
D B Stirling	HMRC SOS	—	37,267	—	—	<b>37,267</b>	80 5p	27 03 2009	26 03 2016

### HMRC APPROVED SHARE OPTION SCHEME (HMRC SOS)

These options have been granted under a HMRC Approved Share Option Scheme. These options are not exercisable unless the Group's earnings per share, before exceptional items, increases over a three year period by at least six percentage points in excess of the increase in the Retail Price Index over the same period.

### EXECUTIVE SHARE OPTION SCHEME

These options have been granted under the Zotefoams Executive Share Option Scheme. These options are not exercisable unless the Group earnings per share, before exceptional items, increase by a percentage in excess of the increase in the Retail Price Index over a three year period. Further conditions control the amount of shares available under these options. The option awards are reduced by one-third or two-thirds if certain thresholds are not reached. The thresholds are as follows:

Executive share options first exercisable in	Percentage increase above RPI needed for		
	Full award	Two-third award	One-third award
2006	40%	30%	20%
2007	300%	200%	100%
2008	200%	150%	100%

So, for example, if the Retail Price Index increased by 9% from 2004 to 2007 a 309% increase in earnings per share over the three year period 2004 to 2007 would be required for the options exercisable in 2007 to become capable of being exercised in full.

The options awarded in 2003, which were first exercisable in March 2006 have lapsed as there was no increase in EPS from 2002 to 2005 and the minimum threshold EPS for an award was 29%.

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

The middle market quoted share price at 29 December 2006 was 101p and the high and low prices during the year were 117 5p and 73 5p respectively.

# DIRECTORS' REMUNERATION REPORT CONTINUED

## DIRECTORS' PENSION ENTITLEMENTS

The executive Directors are members of the Zotefoams Defined Contribution Alternative Pension Plan. Under a salary sacrifice scheme all contributions to this pension scheme are paid by the Company and the contributions made by the Company in 2006 are shown in the table of Directors' Emoluments.

The following Directors are deferred members of the Zotefoams Defined Benefit Pension Scheme and their benefits under this Scheme are shown below.

	Accrued pension in scheme at year end <sup>(1)</sup> £	Gross increase in pension £	Increase in accrued pension net of inflation £	Value of accrued pension at year end <sup>(2)</sup> £	Value of accrued pension at start of year £	Total change in value over period less Directors contributions <sup>(3)</sup> £
A Eldrett	57,434	1,762	—	893,234	816,965	76,269
W H Fairservice <sup>*(4)</sup>	22,001	748	—	389,412	386,800	2,612
C G Hurst	7,599	224	—	54,827	49,443	5,384
D B Stirling	14,931	393	—	94,341	84,727	9,614

\* non-executive Director

## Notes

- 1) The pension entitlement shown is that which would be paid annually on retirement at normal retirement age (or immediately upon late retirement where applicable), based on service to 31 December 2005 and excluding any future increases under the Rules of the Scheme.
- 2) Transfer values have been calculated in accordance with version 9.2 of guidance note GN11 issued by the Institute and Faculty of Actuaries, on the basis agreed with the Trustees of the Pension Scheme.
- 3) The change in the transfer value over the year includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors, such as changes in financial conditions.
- 4) W H Fairservice commenced receipt of his pension from the Scheme on 1 June 2006.

The following is additional information relating to Directors' pensions from the Zotefoams Defined Benefit Pension Scheme:

- a) Before the Scheme closed, members of the Scheme had the option of paying Additional Voluntary Contributions (AVCs). The value of these AVCs has been excluded from the above figures.
- b) Normal retirement age is 65.
- c) A spouse's pension is payable on death in service equal to one-third of the member's annual salary at death. On death after leaving service and before retirement, a spouse's pension is payable of one-half of the member's preserved pension at leaving, revalued from leaving to the date of death, in line with statutory revaluation increases.  
On death in retirement, a spouse's pension is payable of one-half of the member's pension at death, without reduction for any part of the member's pension surrendered for cash at retirement.
- d) Members' guaranteed minimum pension increase at statutory rates. Other pensions increase at the lesser of 5% per annum or the increase in the Retail Price Index.

## APPROVAL

The report was approved by the Board of Directors on 5 March 2007 and signed on its behalf by



**C J RYAN**  
Non-executive Director and Chairman of the Remuneration Committee  
5 March 2007

# AUDIT COMMITTEE REPORT

## SUMMARY OF THE ROLE OF THE AUDIT COMMITTEE

The Audit Committee is appointed by the Board and includes the independent non-executive Directors of the Company. The Audit Committee's terms of reference include all matters indicated by the Combined Code. The terms of reference are considered annually by the Audit Committee and are then referred to the Board for approval.

The Audit Committee is responsible for

- monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgements contained therein,
- reviewing the external auditor's management letter and management responses,
- reviewing the Group's internal controls and risk management systems,
- reviewing the arrangements by which staff may in confidence, raise concerns about possible improprieties (the whistleblowing policy),
- assessing the need for an internal audit function,
- making recommendations to the Board, for a resolution to be put to the shareholders for their approval in general meeting, in relation to the appointment of the external auditor and the approval of the remuneration and terms of engagement of the external auditor,
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements, and
- developing and implementing a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm.

The Audit Committee is required to report its findings to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and make recommendations as to the steps to be taken.

## COMPOSITION OF THE AUDIT COMMITTEE

The members of the Audit Committee in 2006 were the independent non-executive Directors of the Company: N G Howard, R H Lawson and C J Ryan. N G Howard retired from the Committee on 31 December 2006 on his appointment as non-executive Chairman of the Company and D A Campbell joined the Committee on 22 February 2007. R H Lawson is Chairman of the Committee and is a Fellow of the Institute of Chartered Accountants in England and Wales. The Committee normally comprises three members, with a minimum of two members at any time. Two members constitute a quorum.

The Audit Committee structure requires the inclusion of one financially qualified member with relevant financial experience. Currently the Audit Committee Chairman fulfils this requirement. All Audit Committee members are expected to be financially literate. The Company provides training if required.

## MEETINGS

The Audit Committee is required to meet at least twice per year and has an agenda linked to events in the Company's financial calendar. The agenda is predominantly based around these events and is therefore approved by the Audit Committee Chairman on behalf of his fellow members. Each Audit Committee member has the right to require reports on matters of interest in addition to standard agenda items.

The Audit Committee invites the Company Chairman, Managing Director, Finance Director, Financial Controller and senior representatives of the external auditor to attend relevant meetings, although it reserves the right to request any of these individuals to withdraw. For part of a meeting each year it meets with senior representatives of the external auditor without anyone else being present. Other senior management may be invited to present such reports as are required for the Committee to discharge its duties.

## OVERVIEW OF THE ACTIONS TAKEN BY THE AUDIT COMMITTEE TO DISCHARGE ITS DUTIES

Since the beginning of 2006 the Audit Committee has

- reviewed the financial statements in the 2005 and 2006 reports and accounts and the interim report issued in August 2006. As part of this review the Committee received reports from the external auditor on the audit of the annual reports and accounts and the review of the interim report,
- considered the output from the Group-wide process used to identify, evaluate and mitigate high level business risks,
- reviewed the effectiveness of the Group's internal controls (including, but not limited to, financial controls) and disclosures made in the annual report on this matter,
- reviewed and agreed the scope of the audit work to be undertaken by the external auditor,
- considered the views of the external auditor on the effectiveness of the Group's internal financial controls,
- agreed the fees to be paid to the external auditor for their audit and work on the accounts and interim report,
- reviewed its own effectiveness,
- undertaken an assessment of the need for an internal audit function, and
- undertaken an evaluation of the independence and effectiveness of the external auditor.

# AUDIT COMMITTEE REPORT CONTINUED

## EXTERNAL AUDITOR

The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. Although the external auditor is allowed to provide non-audit services the Committee monitors the extent of these services to ensure that they do not compromise the auditor's objectivity. It also assesses the effectiveness of the external auditor in relation to their fulfilment of the agreed audit plan, the robustness and perceptiveness of the auditor in handling key accounting and audit judgements and the thoroughness of the auditor's review of internal financial controls. As a consequence of its satisfaction with the results of these activities the Audit Committee has recommended to the Board that the external auditor should be re-appointed.

## INTERNAL AUDIT FUNCTION

The Audit Committee has reviewed the need for an internal audit function and concluded that given the size of the Group and the proximity of the executive Board members to Group operations an internal audit function covering financial controls 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. The Audit Committee also maintains an oversight over the Company's whistleblowing policy.

## OVERVIEW

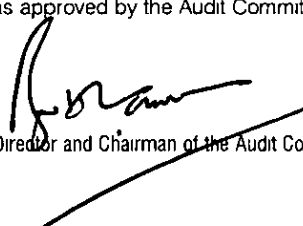
As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the external auditor. The Chairman of the Audit Committee will be available at the AGM to answer any questions about the work of the Committee.

## APPROVAL

This report was approved by the Audit Committee and signed on its behalf by

**R H LAWSON**

Non-executive Director and Chairman of the Audit Committee  
5 March 2007



# CORPORATE SOCIAL RESPONSIBILITY REPORT

Zotefoams considers that the management of safety, health, environmental, social and ethical matters forms a key element of effective corporate governance. These areas are covered by the internal control systems and procedures outlined in the Corporate Governance Report on page 31.

## SAFETY, HEALTH AND ENVIRONMENT (SHE)

The Board has separate policies in place relating to Health, Safety and Environment. In line with best practice, the Company is certified to accredited standards OHSAS 18001 on Health and Safety and ISO 14001 2004 the updated International Standard for Environmental Management Systems.

The Board has ultimate responsibility for SHE policy and performance and receives reports on SHE issues on a quarterly basis. Annual performance objectives are agreed by the Board and performance against these objectives is monitored as part of our quarterly reporting programme.

In 2006 the Operations and Project Director was directly responsible to the Board for Health, Safety and Environmental performance. Site committees meet quarterly to consider all SHE matters and Steering Committees, chaired by the Managing Director (or appropriate responsible person in subsidiary companies), also meet quarterly to consider overall performance and the impact of current and impending legislation. A Health and Safety Adviser and an Environmental Adviser support these groups.

Senior managers are responsible for ensuring that SHE policies are implemented in their departments, all employees are informed of the departmental requirements and departmental training on environmental issues and safe working practices is up to date. Regular audits are conducted to ensure policy and procedure implementation is appropriate. All employees are made aware that primary responsibility for safety lies with the employee.

We take reporting of all incidents very seriously, including "near misses" and plant or equipment damage not resulting in personal injury. All events are investigated by appropriate levels of management to establish root cause and to eliminate re-occurrence wherever possible.

## HEALTH AND SAFETY PERFORMANCE

The operational environment at Zotefoams contains few controlled substances and our manufacturing plant involves mainly manual handling and materials processing. The risks to our process are assessed whenever new or altered equipment or materials are introduced and at regular periods thereafter. The most strictly controlled parts of our sites are where pressure is used.

Operating vessels at high-pressures, Zotefoams is subject to the Pressure Systems Safety Regulations 2000 in the UK and OSHA in the US. Tightly defined procedures and operational controls are in place to manage the safety of our pressure systems. Fail-safe mechanisms known as Pressure Relief Valves (PRV's) and bursting disks (which are the equivalent of fuses in an electrical system) are designed and installed into our pressure systems. Failure of a PRV or bursting disk leads to depressurisation of sections of our system releasing nitrogen gas into the atmosphere and mitigating any further risks.

In 2005 unanticipated corrosion caused by the water-cooling mechanism which Zotefoams uses for some of its high-pressure vessels was found. This was reported in the 2005 annual report. To minimise the extent of this corrosion the Board has accelerated the refurbishment and upgrade programme for the vessels involved. Our target, which is based on the most prudent course from a safety perspective while continuing to operate, is for a serial refurbishment of all water-cooled vessels on the shortest practical timescale. To date we have completed the refurbishment of two vessels under this programme with a further vessel currently withdrawn from use and under refurbishment. Three further affected vessels are currently being monitored.

In 2006 there was 1 reportable lost time injury in the Group (2005: 3).

## ENVIRONMENTAL PERFORMANCE

The Board considers the processes used by Zotefoams to be among the most, if not the most, environmentally friendly way to manufacture polymer foams. Our process uses pure nitrogen gas to expand the foams. The common peroxide cross-linking agent, which enhances foam properties, is completely utilised during processing and, importantly, no other chemical additives are present in our basic foam products. The result is that our basic foam products have no toxic or volatile chemicals (such as solid chemical residues, CFC, HCFC or volatile hydrocarbons) remaining in the material structure. Such substances are present in competitive products.

During 2006 the Group had 12 internally recorded environmental incidents (2005: 16). The most frequently recorded incident remained the releases of nitrogen gas into the air from bursting disks which are an essential part of our statutory equipment safety regime (2006: 9, 2005: 11). While Zotefoams record this as an environmental incident principally on the grounds of utility loss and noise, we consider that the safety of our plant is of primary importance and regard these incidents as evidence that our safety processes are functioning as designed.

The vast majority of all waste produced by Zotefoams plc is either solid or foamed polyolefin. Neither are easily melt-processed (the major recycling route for most plastics) due to our essential step of cross-linking our polymers during manufacture. In 2006 only 7% of the total foam waste produced was sent to landfill (2005: 7%) and the rest was successfully recycled.

Energy consumption per unit of foam manufactured is monitored and reviewed regularly during the year. There are continuing efforts across the site to improve energy efficiency. Zotefoams is negotiating via a third party to join a group of companies in a Climate Change Levy (CCL) agreement. This will involve agreeing specific targets to reduce energy consumption.

# CORPORATE SOCIAL RESPONSIBILITY REPORT CONTINUED

## **EMPLOYEES**

Zotefoams regards its workforce as a key part of the business. It operates an equal opportunities policy and believes that a wide array of diversity (in ethnicity, age, gender, language, sexual orientation, religion, socio-economic status or even personality and ability) promotes innovation and business success. Applications for employment by disabled persons are always fully considered. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Zotefoams places considerable value on the involvement of its employees and continues to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

## **BUSINESS ETHICS**

Zotefoams is committed to high 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.

# CORPORATE GOVERNANCE

The Company is committed to the principles of corporate governance contained in the Combined Code on Corporate Governance (the 'Code') that was issued in 2003 by the Financial Reporting Council for which the Board is accountable to shareholders

## STATEMENT OF COMPLIANCE WITH THE COMBINED CODE

Throughout the year ended 31 December 2006 the Company has been in compliance with the Code provisions set out in Section 1 of the Code

## STATEMENT ABOUT APPLYING THE PRINCIPLES OF THE CODE

The Company has applied the principles set out in Section 1 of the Code, including both the main principles and the supporting principles, by complying with the Code as reported above. Further explanation of how the principles and supporting principles have been applied is set out below and in the Directors' Remuneration Report and the Audit Committee Report

## BOARD EFFECTIVENESS

The Board's role is to provide the entrepreneurial leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed. The Board sets the strategic aims of the Company, ensures that the necessary resources are in place to achieve the Company's objectives and reviews management performance. The Board's role is to act as representative of the shareholders, who are the Company's owners and focuses on the governance of the Company. Management is delegated to the executive Directors and the senior executive management of the Group.

All Directors must take decisions objectively in the interests of the Company.

As part of their role as members of a unitary Board, non-executive Directors constructively challenge and help develop proposals on strategy. Non-executive Directors scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive Directors and have a prime role in appointing, and where necessary removing, executive Directors, and in succession planning.

The Board has three major committees which report into it and function within defined terms of reference. These are the Audit Committee, the Remuneration Committee and the Nominations Committee. Attendance details for 2006 by the Directors for meetings of the Board and these Committees are shown below.

Attendance at meetings	Full Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nominations Committee meetings
Total number of meetings	9	2	8	2
A Eldrett <sup>(1)</sup>	2	n/a	n/a	n/a
W H Fairservice	8	n/a	n/a	2
N G Howard	9	2	8	2
C G Hurst	9	n/a	n/a	n/a
R H Lawson	9	2	8	2
C J Ryan	9	2	8	2
D B Stirling	9	n/a	n/a	n/a

(1) A Eldrett attended all the Board meetings between 1 January 2006 and 31 March 2006, the date of his resignation from the Board.

## CHAIRMAN AND MANAGING DIRECTOR

The Chairman is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. The Chairman is also responsible for ensuring that the Directors receive accurate, timely and clear information. The Chairman facilitates the effective contribution of the non-executive Directors in particular and ensures constructive relations between executive and non-executive Directors.

The Managing Director is responsible for the running of the Company's business. He is supported by the other executive Directors and senior management team members in the Group.

## BOARD BALANCE AND INDEPENDENCE

The Board structure usually comprises, in addition to executive Directors, three independent non-executive Directors and a non-executive Chairman. Following the resignation of W H Fairservice on 31 December 2006 and the appointment of N G Howard as Chairman, the Company had only two independent non-executive Directors until the appointment of D A Campbell on 22 February 2007.

The Chairman in 2006, W H Fairservice, was a former Managing Director of the Company. He worked in a non-executive capacity and was not a member of the two major Board committees – Remuneration and Audit. He resigned from the Board on 31 December 2006 and was replaced by N G Howard who was independent on appointment.

No one other than the Committee Chairman and members is entitled to be present at a meeting of the Remuneration, Audit and Nominations Committees, but others may attend at the invitation of the Committees. During the year the Chairman met with the non-executive Directors without the executive Directors present and the non-executive Directors met without the Chairman being present.

# CORPORATE GOVERNANCE CONTINUED

## **APPOINTMENTS TO THE BOARD**

Appointments to the Board are proposed by the Nominations Committee which comprises the Chairman and the independent non-executive Directors. W H Fairservice was Chairman of the Committee in 2006. He was replaced on 1 January 2007 as Committee Chairman by N G Howard.

The Nominations Committee operates within a defined set of terms of reference from the Board and is responsible for managing the recruitment of new Board members within a specification set by the Board. Appointments to the Board are made on merit and against objective criteria. Care is taken to ensure that appointees have enough time to devote to the job.

Following the announcement of the retirement of W H Fairservice the Nominations Committee appointed external search consultants, Hanson Green, to aid the selection and appointment of an additional independent non-executive Director, which resulted in the appointment of D A Campbell to the Board on 22 February 2007.

## **INFORMATION AND PROFESSIONAL DEVELOPMENT**

Each month all Directors receive management reports and briefing papers in relation to Board matters. New appointments to the Board receive an induction and, if appropriate, training. Training is available subsequently in order to fulfil the requirements of being a Director of a listed company. 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.

## **BOARD EVALUATION**

A formal review of Board and Committee performance is carried out annually. The Chairman's performance is reviewed by the other non-executive Directors in consultation with the executive Directors. The other non-executive Directors' performance is evaluated by the Chairman in consultation with the executive Directors. Executive Directors' performance is evaluated by the Remuneration Committee in conjunction with the Chairman and the Managing Director (except in the case of the Managing Director, when the Managing Director is not present).

## **RE-ELECTION**

Re-election of Board members is required at the first AGM following appointment and at least every three years thereafter. At the AGM in 2007 three Directors will stand for re-election:

- C G Hurst having completed a three year term,
- D B Stirling, having completed a three year term, and
- D A Campbell, following his appointment in February 2007.

## **REMUNERATION**

The principles and details of remuneration policy are set out in the Directors' Remuneration Report.

## **FINANCIAL REPORTING**

The Directors' responsibilities for preparing the financial statements are set out in the Statement of Directors' Responsibilities.

## **AUDIT COMMITTEE AND AUDITORS**

A separate Audit Committee Report provides details of the role and activities of the Committee and its relationship with the external auditor.

## **GOING CONCERN**

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.

## **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. To ensure that the Board, particularly the non-executive Directors, understand the views of major shareholders, the Company's corporate brokers provided a summary of feedback from the meetings following the interim and final results announcements. The Chairman, Senior Independent Director (R H Lawson) and the other non-executive Directors will attend meetings with major shareholders if requested.

The Board considers the annual report and financial statements and AGM to be the primary vehicles for communication with private investors. The members of the Audit and Remuneration Committee will normally be present to speak at the AGM. The corporate website [www.zotefoams.com](http://www.zotefoams.com) contains information on the Company.

## **INTERNAL CONTROL**

The Board has applied principle C 2 of the Combined Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Group faces. The Board regularly reviews the process, which has been in place from the start of the year to the date of approval of this report and which is in accordance with the revised guidance on internal control published in October 2005 (the Turnbull Guidance). The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with provision C 2.1 of the Combined Code, the Board regularly reviews the effectiveness of the Group's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Board has also performed a specific assessment for the purpose of this annual report. This assessment considered all the significant aspects of internal control arising during the period covered by the report. The Audit Committee assists the Board in discharging its review responsibilities.

During the course of its review of the system of internal control, the Board had not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

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

### **Control environment**

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**

Annual budgets are a key part of the planning process and performance against plan is actively monitored at Board level supported by quarterly forecasts. Statistics and commentary on actual operating performance are 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.

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 and non-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.

Non-financial controls are reviewed regularly by executive management who report any issues and corrective actions taken directly to the Board.

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the annual report and the Group and Parent Company financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and have elected to prepare the Parent Company financial statements on the same basis

The Group and Parent Company financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position of the Group and the Parent Company and the performance for that period, the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

In preparing each of the Group and Parent Company 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 they have been prepared in accordance with IFRS as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its 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

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations

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

# REPORT OF THE INDEPENDENT AUDITOR

TO THE MEMBERS OF ZOTEOFAMS plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Zotefoams plc for the year ended 31 December 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Recognised Income and Expenses, and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the annual report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 34.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referenced from the Business Review section of the Directors' Report. We also report to you if, in our opinion, 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 regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of 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 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. Our responsibilities do not extend to any other information.

## BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Directors' Remuneration Report to be audited. 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 and Company'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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

## OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended,
- the Parent Company financial statements give a true and fair view, in accordance with IFRS as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 December 2006,
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the financial statements.



**KPMG AUDIT PLC**  
Chartered Accountants  
Registered Auditor  
Crawley  
5 March 2007

# CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006			2005		
		Pre-exceptional items £000	Exceptional items (see note 4) £000	Post-exceptional items £000	Pre-exceptional items £000	Exceptional items (see note 4) £000	Post-exceptional items £000
<b>Revenue</b>	2	<b>30,052</b>	—	<b>30,052</b>	27,975	—	27,975
Cost of sales		(22,257)	—	(22,257)	(21,640)	—	(21,640)
<b>Gross profit</b>		<b>7,795</b>	—	<b>7,795</b>	6,335	—	6,335
Distribution costs		(2,117)	—	(2,117)	(1,905)	—	(1,905)
Administrative expenses		(2,842)	(1,074)	(3,916)	(2,407)	1,449	(958)
<b>Operating profit</b>		<b>2,836</b>	<b>(1,074)</b>	<b>1,762</b>	2,023	1,449	3,472
Financial income	6	884	—	884	813	—	813
Finance costs	6	(1,047)	—	(1,047)	(997)	—	(997)
<b>Profit before tax</b>		<b>2,673</b>	<b>(1,074)</b>	<b>1,599</b>	1,839	1,449	3,288
Taxation	7	(682)	322	(360)	(569)	(292)	(861)
<b>Profit for the year</b>	3, 9	<b>1,991</b>	<b>(752)</b>	<b>1,239</b>	1,270	1,157	2,427
Attributable to Equity holders of the parent		1,991	(752)	1,239	1,270	1,157	2,427
<b>Earnings per share</b>							
<b>Basic (p)</b>	8			<b>3.4</b>			6.7
<b>Diluted (p)</b>	8			<b>3.4</b>			6.7

# CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 £000	2005 £000
Foreign exchange translation differences on investment in foreign subsidiary	(905)	846
Effective portion of changes in fair value of cash flow hedges net of recycling	163	(79)
Actuarial gains/(losses) on defined benefit schemes	426	(42)
Tax on items taken directly to equity	(159)	13
<b>Net (expense)/income recognised directly in equity</b>	<b>(475)</b>	<b>738</b>
Profit for the year	1,239	2,427
<b>Total recognised income and expense for the year</b>	<b>764</b>	<b>3,165</b>
Attributable to equity holders of the parent	764	3,165

# COMPANY STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 31 DECEMBER 2006

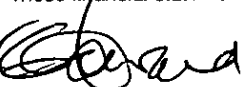
	2006 £000	2005 £000
Effective portion of changes in fair value of cash flow hedges net of recycling	163	(79)
Actuarial gains/(losses) on defined benefit schemes	426	(42)
Tax on items taken directly to equity	(159)	13
<b>Net income/(expense) recognised directly in equity</b>	<b>430</b>	<b>(108)</b>
Profit for the year	571	2,985
<b>Total recognised income and expense for the year</b>	<b>1,001</b>	<b>2,877</b>
Attributable to equity holders of the Company	1,001	2,877

# CONSOLIDATED BALANCE SHEET

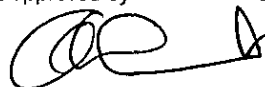
AS AT 31 DECEMBER 2006

	Note	2006 £000	2005 £000
<b>Non-current assets</b>			
Property, plant and equipment	10	27,018	28,364
Deferred tax assets	17	99	132
<b>Total non-current assets</b>		<b>27,117</b>	<b>28,496</b>
<b>Current assets</b>			
Inventories	12	3,785	3,933
Trade and other receivables	13	6,163	6,182
Cash and cash equivalents	14	82	432
<b>Total current assets</b>		<b>10,030</b>	<b>10,547</b>
<b>Total assets</b>		<b>37,147</b>	<b>39,043</b>
<b>Equity</b>			
Issued share capital	18	(1,816)	(1,816)
Share premium	19	(13,753)	(13,753)
Capital redemption reserve	19	(5)	(5)
Translation reserve	19	635	(270)
Hedging reserve	19	(84)	79
Retained earnings	19	(9,815)	(9,857)
<b>Total equity attributable to the equity holders of the Company</b>	19	<b>(24,838)</b>	<b>(25,622)</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	16	(700)	(1,100)
Employee benefits	22	(4,240)	(5,220)
Deferred tax liabilities	17	(2,764)	(2,730)
<b>Total non-current liabilities</b>		<b>(7,704)</b>	<b>(9,050)</b>
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	16	(400)	(400)
Bank overdraft	14	(411)	—
Tax payable		(307)	(698)
Trade and other payables	15	(3,487)	(3,273)
<b>Total current liabilities</b>		<b>(4,605)</b>	<b>(4,371)</b>
<b>Total liabilities</b>		<b>(12,309)</b>	<b>(13,421)</b>
<b>Total equity and liabilities</b>		<b>(37,147)</b>	<b>(39,043)</b>

These financial statements were approved by the Board of Directors on 5 March 2007 and signed on its behalf by



**N G HOWARD**  
Chairman



**C G HURST**  
Finance Director

# COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2006

	Note	2006 £000	2005 £000
<b>Non-current assets</b>			
Property, plant and equipment	10	21,830	22,063
Investment in subsidiaries	11	5,678	7,035
<b>Total non-current assets</b>		<b>27,508</b>	<b>29,098</b>
<b>Current assets</b>			
Inventories	12	3,155	3,101
Trade and other receivables	13	5,639	5,537
Cash and cash equivalents	14	—	209
<b>Total current assets</b>		<b>8,794</b>	<b>8,847</b>
<b>Total assets</b>		<b>36,302</b>	<b>37,945</b>
<b>Equity</b>			
Issued share capital	18	(1,816)	(1,816)
Share premium	19	(13,753)	(13,753)
Capital redemption reserve	19	(5)	(5)
Hedging reserve	19	(84)	79
Retained earnings	19	(8,508)	(9,218)
<b>Total equity attributable to the equity holders of the Company</b>	19	<b>(24,166)</b>	<b>(24,713)</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	16	(700)	(1,100)
Employee benefits	22	(4,240)	(5,220)
Deferred tax liabilities	17	(2,764)	(2,730)
<b>Total non-current liabilities</b>		<b>(7,704)</b>	<b>(9,050)</b>
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	16	(400)	(400)
Bank overdraft	14	(411)	—
Tax payable		(319)	(718)
Trade and other payables	15	(3,302)	(3,064)
<b>Total current liabilities</b>		<b>(4,432)</b>	<b>(4,182)</b>
<b>Total liabilities</b>		<b>(12,136)</b>	<b>(13,232)</b>
<b>Total equity and liabilities</b>		<b>(36,302)</b>	<b>(37,945)</b>

These financial statements were approved by the Board of Directors on 5 March 2007 and signed on its behalf by



**N G HOWARD**  
Chairman



**C G HURST**  
Finance Director

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 £000	2005 £000
<b>Cash flows from operating activities</b>			
Profit for the year		1,239	2,427
Adjustments for			
Depreciation, amortisation and impairment		3,251	3,322
Financial income		(884)	(813)
Financial expense		1,047	997
Equity-settled share-based payments		64	(14)
Taxation		360	861
<b>Operating profit before changes in working capital and provisions</b>		<b>5,077</b>	<b>6,780</b>
Increase in trade and other receivables		(107)	(346)
Decrease/(increase) in inventories		51	(704)
Increase in trade and other payables		314	334
Decrease in provisions and employee benefits		(619)	(2,003)
<b>Cash generated from the operations</b>		<b>4,716</b>	<b>4,061</b>
Interest paid		(126)	(151)
Tax paid		(823)	(713)
<b>Net cash from operating activities</b>		<b>3,767</b>	<b>3,197</b>
Proceeds on disposal of property, plant and equipment		3	—
Interest received		8	26
Acquisition of property, plant and equipment		(2,641)	(1,070)
<b>Net cash used in investing activities</b>		<b>(2,630)</b>	<b>(1,044)</b>
Proceeds from the issue of share capital		—	49
Repayment of borrowings		(400)	(,00)
Payment of finance lease liabilities		—	(57)
Dividends paid		(1,634)	(1,431)
<b>Net cash used in financing activities</b>		<b>(2,034)</b>	<b>(2,039)</b>
Net (decrease)/increase in cash and cash equivalents		(897)	,14
<b>Cash and cash equivalents at 1 January</b>		<b>432</b>	<b>298</b>
Effect of exchange rate fluctuations on cash held		136	20
<b>Cash and cash equivalents at 31 December</b>	14	<b>(329)</b>	<b>432</b>

Cash and cash equivalents comprise cash at bank and short-term highly liquid investments with a maturity date of less than three months

# COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 £000	2005 £000
<b>Cash flows from operating activities</b>			
Profit for the year		571	2,985
Adjustments for			
Depreciation, amortisation and impairment		2,825	2,899
Foreign exchange losses/(gains)		508	(623)
Financial income		(1,172)	(1,126)
Financial expense		1,049	1,026
Equity-settled share-based payments		64	(14)
Taxation		321	1,219
<b>Operating profit before changes in working capital and provisions</b>		<b>4,166</b>	<b>6,366</b>
Increase in trade and other receivables		(34)	(151)
Increase in inventories		(54)	(827)
Increase in trade and other payables		313	389
Decrease in provisions and employee benefits		(619)	(2,003)
<b>Cash generated from the operations</b>		<b>3,772</b>	<b>3,774</b>
Interest paid		(128)	(156)
Tax paid		(817)	(699)
<b>Net cash flow from operating activities</b>		<b>2,827</b>	<b>2,919</b>
Proceeds on disposal of property, plant and equipment		3	—
Interest received		296	313
Acquisition of property, plant and equipment		(2,574)	(1,046)
<b>Net cash used in investing activities</b>		<b>(2,275)</b>	<b>(733)</b>
Proceeds from issue of share capital		—	49
Intercompany loan repayment		840	—
Repayment of borrowings		(400)	(400)
Payment of finance lease liabilities		—	(57)
Dividends paid		(1,634)	(1,631)
<b>Net cash used in financing activities</b>		<b>(1,194)</b>	<b>(2,039)</b>
Net (decrease)/increase in cash and cash equivalents		(642)	147
<b>Cash and cash equivalents at 1 January</b>		<b>209</b>	<b>65</b>
Effect of exchange fluctuations on cash held		22	(3)
<b>Cash and cash equivalents at 31 December</b>	14	<b>(411)</b>	<b>209</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 1 ACCOUNTING POLICIES

Zotefoams plc (the 'Company') is a Company incorporated in Great Britain

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

Both Parent Company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRS'). On publishing the Parent Company financial statements here together with the Group financial statements the Company is taking advantage of the exemption in Section 230 of the Companies Act 1985 not to present its individual Income Statement and related notes that form part of these approved financial statements.

These financial statements were approved by the Board on 5 March 2007.

Judgements made by the Directors, in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year, are discussed in note 25.

### a) Measurement convention

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

### b) Basis of consolidation

#### i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### ii) Transactions eliminated on consolidation

Intra-group balances and transactions, including any unrealised gains and losses or income and expenses arising from such transactions, are eliminated in preparing the financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### c) Foreign currency

#### i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate prevailing at the time of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit and loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

#### ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including fair value adjustments arising on consolidation, are translated to sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to sterling at the average rate of exchange ruling during the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations since 1 January 2004 are taken directly to translation reserve. They are released into the Income Statement upon disposal.

### d) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement is recognised immediately in the Income Statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy e).

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

## 1 ACCOUNTING POLICIES CONTINUED

### e) Cash flow hedging

When a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or of a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains or losses that were recognised directly in equity are reclassified into the Income Statement in the same period or periods during which the asset acquired or liability assumed affects the Income Statement (i.e. when interest income or expense is recognised).

The ineffective part of any gain or loss is recognised immediately in the Income Statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Income Statement.

### f) Property, plant and equipment

#### i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses (see accounting policy k).

When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

The cost of assets under construction includes the cost of materials and direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

#### ii) Leased assets

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. Lease payments are accounted for as described in accounting policy q.

#### iii) Depreciation

Depreciation is charged to the Income Statement on a straight line basis over the estimated useful lives of each part of the item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Buildings	20 years
Plant and equipment	5–15 years
Computer equipment and vehicles	3–5 years

### g) Intangible assets – research and development

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the Income Statement as an expense incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development.

### h) Trade and other receivables

Trade and other receivables are stated at their nominal amounts less impairment losses (see accounting policy k).

### i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completing and selling expenses.

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 Group, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 1 ACCOUNTING POLICIES CONTINUED

### j) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the statement of cash flows.

### k) Impairment

The carrying amounts of the Group's assets, other than inventories (see accounting policy i), employee benefits (see accounting policy n) and deferred tax assets (see accounting policy r), are reviewed at each balance sheet date where there is an indication that the asset may be impaired. If any such indication exists, the asset's recoverable amount is estimated (see below).

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

#### i) Calculation of recoverable amount

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### l) Dividends

Dividends are recognised as a liability in the period in which they are approved.

### m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any differences between cost and redemption values being recognised in the Income Statement over the period of the borrowings on an effective interest basis where material.

### n) Employee benefits

#### i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Income Statement as incurred.

#### ii) Defined benefits plans

The Group's net obligation in respect of defined benefit post employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that the employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The Group recognises all actuarial gains and losses that arise through the Statement of Recognised Income and Expense.

#### iii) Share-based payment transactions

The share option programme allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employee becomes unconditionally entitled to the options. The fair value of the options granted before 2006 were measured using a Monte Carlo simulation method. Options granted in 2006 were measured using a Black-Scholes model. Fair value measurements take into account the terms and conditions upon which the options were granted.

### o) Trade and other payables

Trade and other payables are stated at cost.

### p) Revenue

Revenue from the sale of goods is recognised in the Income Statement at the point of despatch when significant risks and rewards of ownership is deemed to have been transferred to the buyer.

### q) Expenses

#### i) Operating lease payments

Payments made under operating leases are recognised in the Income Statement on a straight line basis over the term of the lease. Lease incentives received are recognised in the Income Statement as an integral part of the total lease expenses.

#### ii) Finance lease payments

The finance charge, where material, is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

## 1 ACCOUNTING POLICIES CONTINUED

### r) Taxation

Tax on the Income Statement for the periods presented comprises current and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to the tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional tax that arises from the distribution of dividends is recognised at the same time as the liability to pay the related dividend.

Information as to the calculation of tax on the Income Statement is included in note 7.

### s) Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

### t) Investments in equity securities

Investments in subsidiaries are stated at cost less impairment.

### u) Adopted IFRS not yet applied

A number of relevant new standards, amendment to standards and interpretations are not yet effective for the year ended 31 December 2006 and have not been applied in preparing these consolidated financial statements.

**IFRS 7 Financial Instruments Disclosures and the Amendment to IAS 1 Presentation of Financial Statements** Capital Disclosures requires extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to the Group's financial instruments and share capital.

**IFRIC 8 Scope of IFRS 2 Share-based Payment** addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Group's 2007 financial statements, with retrospective application required, and is not expected to have any impact on the consolidated financial statements.

**IFRIC 10 Interim Financial Reporting and Impairment** prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and is not expected to have any impact on the consolidated financial statements.

## 2 SEGMENT REPORTING

The Group manufactures and sells high-performance foams for specialist markets worldwide. These fall into two main business segments best categorised by their constituent raw materials:

- **Polyolefins** these foams are made from olefinic homopolymer and copolymer resin. The most common resin used is polyethylene.
- **High-performance polymers (HPP)** these foams exhibit high-performance on certain key properties, such as improved chemical, flammability or temperature performance, due to the resins on which they are based. Turnover in the segment is currently mainly derived from our ZOTEK® F foams made from PVDF fluoropolymer. Other polymers either commercially launched or being assessed in development include polyamide (nylon) and silicone.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 2 SEGMENT REPORTING CONTINUED

Due to our unique manufacturing technology Zotefoams can produce polyolefin foams with superior performance to other manufacturers. However, our strategy is to use the capabilities of our technology to produce foams from other materials as well as polyolefins. The development of foams from high-performance polymers business is currently in its early stages with costs (including the technical and marketing costs to develop these materials) exceeding revenues.

	Note	Polyolefins		HPP		Consolidated	
		2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
Revenue		<b>29,558</b>	27,420	<b>494</b>	555	<b>30,052</b>	27,975
Pre-exceptional profit/(loss)		<b>3,369</b>	2,219	<b>(533)</b>	(196)	<b>2,836</b>	2,023
Exceptional items	4	<b>(1,074)</b>	—	—	—	<b>(1,074)</b>	1,449
Post-exceptional profit/(loss)		<b>2,295</b>	2,219	<b>(533)</b>	(196)	<b>1,762</b>	3,472
Net financing costs						<b>(163)</b>	(184)
Taxation						<b>(360)</b>	(861)
Profit for the period						<b>1,239</b>	2,427
Segment assets		<b>35,716</b>	38,026	<b>1,332</b>	885	<b>37,048</b>	38,911
Unallocated assets		—	—	—	—	<b>99</b>	132
Total assets						<b>37,147</b>	39,043
Segment liabilities		<b>(9,123)</b>	(9,752)	<b>(115)</b>	(241)	<b>(9,238)</b>	(9,993)
Unallocated liabilities		—	—	—	—	<b>(3,071)</b>	(3,428)
Total liabilities						<b>(12,309)</b>	(13,421)
Depreciation		<b>3,188</b>	3,272	<b>63</b>	50	<b>3,251</b>	3,322
Capital expenditure		<b>2,287</b>	1,053	<b>354</b>	17	<b>2,641</b>	1,070

### Geographical segments

	UK and Eire £000	Europe £000	North America £000	Rest of the World £000	Total
For the year ended 31 December 2006					
Revenue from external customers	<b>7,543</b>	<b>14,391</b>	<b>7,504</b>	<b>614</b>	<b>30,052</b>
Segment assets	<b>29,746</b>	—	<b>7,401</b>	—	<b>37,147</b>
Capital expenditure	<b>2,574</b>	—	<b>67</b>	—	<b>2,641</b>
For the year ended 31 December 2005					
Revenue from external customers	7,332	12,604	7,336	703	27,975
Segment assets	29,876	—	9,167	—	39,043
Capital expenditure	1,046	—	24	—	1,070

### 3 EXPENSES AND AUDITOR'S REMUNERATION

	2006 £000	2005 £000
Included in profit for the year are		
Research and development costs expensed	924	776
Net exchange losses/(gains)	147	(111)
Auditor's remuneration		
Group – audit of these financial statements	80	84
– fees receivable by the auditors and their associates in respect of other services		
– other services pursuant with legislation	18	39
– other services relating to taxation	5	11
– services relating to corporate finance transactions	—	8
	<b>103</b>	<b>142</b>

### 4 EXCEPTIONAL ITEMS

The Company has classified the following items as exceptional

#### Commercial agreement termination costs

Relating to the termination payment, legal, advisory and other costs to end the commercial relationship with the Sekisui Group which was announced in March 2006

#### Bid costs

Relating to legal, advisory and other costs incurred in respect of a preliminary approach for the share capital of the Company which was announced in January 2005 and terminated in November 2005

#### Pension curtailment costs

On 31 December 2005, the Zotefoams Defined Benefit Pension Scheme for UK employees was closed to future accrual of benefits. The actuarial gain on closing the scheme to future accrual of benefits and the associated costs have been classified as an exceptional item

#### Tax adjustment to exceptional items in prior year

In 2001 and 2002, the Group recorded an exceptional profit on insurance proceeds following a fire in 2000 at the Group's Croydon site. The tax computations relating to 2001 and 2002 have been agreed with the Revenue resulting in a £267,000 release on the deferred tax provided in relation to these proceeds. This was released as an exceptional item in 2005 because it relates to a previous exceptional item

	2006 £000	2005 £000
Bid costs	30	(413)
Commercial agreement termination	(1,104)	—
Pension curtailment		
Actuarial gain	—	1,972
Associated costs borne by the Company	—	(110)
Exceptional items before taxation	(1,074)	1,449
Tax on above	322	(559)
Adjustment to tax on prior year exceptional item	—	267
Exceptional items after taxation	<b>(752)</b>	<b>1,157</b>

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 5 STAFF NUMBERS AND EXPENSES

The average number of people employed by the Group and Company (including Directors) during the year, analysed by category, was as follows

	Number of employees			
	Group		Company	
	2006	2005	2006	2005
Production	133	130	123	120
Maintenance	19	20	16	16
Distribution and marketing	33	32	25	22
Administration and technical	60	60	52	52
	<b>245</b>	<b>242</b>	<b>216</b>	<b>210</b>

The aggregate payroll costs of these persons were as follows

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Wages and salaries	6,777	6,937	5,913	5,984
Social security costs	780	622	602	528
Share-based payments	64	(14)	64	(14)
Other pension costs	606	574	521	468
	<b>8,227</b>	<b>8,119</b>	<b>7,100</b>	<b>6,966</b>

Details of individual Directors' emoluments, pension costs and share options are dealt with on pages 22 to 26 in the Directors' Remuneration Report

## 6 FINANCE INCOME AND COSTS

### Financial income

	2006	2005
	£000	£000
Interest on bank deposits	6	26
Expected return on assets of defined benefit pension fund	876	787
	<b>884</b>	<b>813</b>

### Finance costs

	2006	2005
	£000	£000
On bank loans and overdrafts	125	120
On finance leases	—	16
Interest on defined benefit pension obligation	922	861
	<b>1,047</b>	<b>997</b>

## 7 TAXATION

	Note	2006	2005
		£000	£000
UK corporation tax		484	917
Overseas taxation		6	2
Adjustment to prior year UK tax charge		(60)	(84)
Current taxation		430	835
Deferred taxation	17	(70)	26
Total tax charge		<b>360</b>	<b>861</b>

## 7 TAXATION CONTINUED

### Factors affecting the tax charge

The tax charge for the period is lower (2005 lower) than the standard rate of corporation tax in the UK of 30% (2005 30%) The differences are explained below

	2006 £000	2005 £000
Tax reconciliation		
Profit on ordinary activities before tax	1,599	3,288
Tax at 30% (2005 30%)	480	986
Effects of		
Research and development tax credits less expenses not deductible for tax purposes	(53)	115
Partial recognition of US tax losses	(1)	(54)
(Lower)/higher tax rates on overseas earnings	(6)	15
Adjustments to tax charge in respect of previous periods	(60)	66
Adjustment to tax charge on prior year exceptional items	—	(267)
Total tax charge	360	861

## 8 DIVIDENDS AND EARNINGS PER SHARE

	2006 £000	2005 £000
Final dividend prior year of 3 0p (2004 3 0p) net per 5 0p ordinary share	1,087	1,087
Interim dividend of 1 5p (2005 1 5p) net per 5 0p ordinary share	547	544
Dividends paid during the year	1,634	1,631

The proposed final dividend for the year ended 31 December 2006 of 3 0p per share (2005 3 0p) is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements

### Earnings per ordinary share

Earnings per ordinary share is calculated by dividing profit after tax of £1,239,000 (2005 £2,427,000) 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 IAS 33

	2006	2005
Average number of ordinary shares issued	36,319,924	36,276,976
Deemed issued for no consideration	339,875	—
Diluted	36,659,799	36,276,976

Shares deemed issued for no consideration have been calculated based on the potential dilutive effect of the Executive Share Option Scheme and options granted under the HMRC Approved Share Option Scheme

Date from which exercisable	Exercise price	Number of shares under option	
		2006	2005
18 March 2006	80 0p	—	872,865
7 April 2007	72 5p	1,130,034	1,130,034
22 December 2008	77 0p	1,026,320	1,026,320
27 March 2009	80 5p	111,801	—
		2,268,155	3,029,219

The average fair value of one ordinary share during the year was considered to be 88 3p (2005 72 0p)

## 9 PROFIT FOR THE FINANCIAL YEAR

The Group accounts do not include a separate Income Statement for Zotefoams plc (the parent undertaking) as permitted by Section 230 of the Companies Act 1985 The Parent Company profit after tax for the financial year is £571,000 (2005 £2,985,000)

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 10 PROPERTY, PLANT AND EQUIPMENT

### a) Group

	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Under construction £000	Total £000
<b>Cost</b>					
Balance at 1 January 2005	14,247	34,280	2,152	2,692	53,371
Acquisitions	14	627	44	514	1,199
Disposals	—	—	(61)	—	(61)
Reclassifications	—	2,080	3	(2,083)	—
Effect of movement in foreign exchange	432	423	13	—	868
<b>Balance at 31 December 2005</b>	<b>14,693</b>	<b>37,410</b>	<b>2,151</b>	<b>1,123</b>	<b>55,377</b>
Balance at 1 January 2006	14,693	37,410	2,151	1,123	55,377
Acquisitions	—	1,461	32	1,169	2,662
Disposals	—	(101)	(351)	—	(452)
Reclassifications	—	177	(4)	(173)	—
Effect of movement in foreign exchange	(500)	(489)	(17)	—	(1,006)
<b>Balance at 31 December 2006</b>	<b>14,193</b>	<b>38,458</b>	<b>1,811</b>	<b>2,119</b>	<b>56,581</b>
<b>Depreciation and impairment</b>					
Balance at 1 January 2005	3,009	18,621	1,832	114	23,576
Depreciation charge for the year	574	2,440	255	53	3,322
Disposals	—	—	(61)	—	(61)
Reclassifications	—	93	—	(93)	—
Effect of movement in foreign exchange	64	97	15	—	176
<b>Balance at 31 December 2005</b>	<b>3,647</b>	<b>21,251</b>	<b>2,041</b>	<b>74</b>	<b>27,013</b>
Balance at 1 January 2006	3,647	21,251	2,041	74	27,013
Depreciation charge for the year	574	2,538	72	67	3,251
Disposals	—	(98)	(351)	—	(449)
Reclassifications	—	14	(8)	(6)	—
Effect of movement in foreign exchange	(91)	(149)	(12)	—	(252)
<b>Balance at 31 December 2006</b>	<b>4,130</b>	<b>23,556</b>	<b>1,742</b>	<b>135</b>	<b>29,563</b>
<b>Net book value</b>					
At 1 January 2005	11,238	15,659	320	2,578	29,795
At 31 December 2005 and 1 January 2006	11,046	16,159	110	1,049	28,364
<b>At 31 December 2006</b>	<b>10,063</b>	<b>14,902</b>	<b>69</b>	<b>1,984</b>	<b>27,018</b>

Included in plant and machinery for both the Company and the Group are assets of £1,100,000 (2005 £1,500,000) pledged as security for a bank loan

During the year both the Company and the Group commenced a number of programmes to construct and refurbish plant and equipment and fixtures and fittings. Costs incurred up to the balance sheet date totalled £2,119,000 (2005 £1,123,000)

## 10 PROPERTY, PLANT AND EQUIPMENT CONTINUED

### b) Company

	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Under construction £000	Total £000
<b>Cost</b>					
Balance at 1 January 2005	10,587	30,328	2,045	2,692	45,652
Acquisitions	3	614	44	514	1,175
Disposals	—	—	(61)	—	(61)
Reclassifications	—	2,080	3	(2,083)	—
Balance at 31 December 2005	10,590	33,022	2,031	1,123	46,766
Balance at 1 January 2006	10,590	33,022	2,031	1,123	46,766
Acquisitions	—	1,411	15	1,169	2,595
Disposals	—	(101)	(351)	—	(452)
Reclassifications	—	177	(4)	(173)	—
<b>Balance at 31 December 2006</b>	<b>10,590</b>	<b>34,509</b>	<b>1,691</b>	<b>2,119</b>	<b>48,909</b>
<b>Depreciation and impairment</b>					
Balance at 1 January 2005	2,530	17,468	1,753	114	21,865
Depreciation charge for the year	421	2,173	252	53	2,899
Disposals	—	—	(61)	—	(61)
Reclassifications	—	93	—	(93)	—
Balance at 31 December 2005	2,951	19,734	1,944	74	24,703
Balance at 1 January 2006	2,951	19,734	1,944	74	24,703
Depreciation charge for the year	421	2,276	61	67	2,825
Disposals	—	(98)	(351)	—	(449)
Reclassifications	—	14	(8)	(6)	—
<b>Balance at 31 December 2006</b>	<b>3,372</b>	<b>21,926</b>	<b>1,646</b>	<b>135</b>	<b>27,079</b>
<b>Net book value</b>					
At 1 January 2005	8,057	12,860	292	2,573	23,787
At 31 December 2005 and 1 January 2006	7,639	13,288	87	1,049	22,063
<b>At 31 December 2006</b>	<b>7,218</b>	<b>12,583</b>	<b>45</b>	<b>1,984</b>	<b>21,830</b>

## 11 INVESTMENTS IN SUBSIDIARIES

	Company	
	2006 £000	2005 £000
Shares in Group undertakings – at cost	5,651	4,505
Provision against the value of investment in subsidiary to reflect the value of the underlying net assets	(3,294)	(3,294)
Loan to Zotefoams Inc	3,321	5,824
	<b>5,678</b>	<b>7,035</b>

The investments consist of the entire ordinary share capital of Zotefoams International Limited and a \$6,500,000 loan (2005 \$10,000,000) to Zotefoams Inc

The movements in investments during the year were

- conversion of \$2,000,000 of loans to Zotefoams Inc from Zotefoams plc into shares in Zotefoams Inc,
- repayments by Zotefoams Inc of \$1,500,000 loan to Zotefoams plc, and
- foreign exchange differences

The following is a complete list of the subsidiary undertakings of the Company, in all of which the Company owns either directly or indirectly 100% of the ordinary share capital

- Zotefoams International Limited,
- Zotefoams Inc, and
- Zotefoams Fabrications Limited – in voluntary liquidation

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

The principal activities of the subsidiary undertakings are as follows. Zotefoams Inc purchases and distributes cross-linked block foams and Zotefoams International Limited is a holding Company. Zotefoams Fabrications Limited used to manufacture cross-linked block foams but these activities have been transferred to other Group companies and Zotefoams Fabrications Limited is now in members' voluntary liquidation

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

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 12 INVENTORIES

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Raw materials and consumables	1,469	1,593	1,446	1,571
Work in progress	1,125	1,085	1,017	945
Finished goods	1,191	1,255	692	585
	<b>3,785</b>	<b>3,933</b>	<b>3,155</b>	<b>3,101</b>

The carrying amount of inventories subject to retention of title clauses is £252,000 (2005 £335,000)

In 2006 the value of inventory recognised by the Group as an expense in cost of goods sold was £18,673,000 (2005 £17,078,000)

## 13 TRADE AND OTHER RECEIVABLES

	Note	Group		Company	
		2006 £000	2005 £000	2006 £000	2005 £000
Amounts falling due within one year					
Trade receivables		5,875	5,893	4,476	4,339
Fair value derivatives	20	85	17	85	17
Amounts owed by Group undertakings		—	—	879	940
Other receivables		49	31	49	31
Prepayments and accrued income		154	241	150	210
		<b>6,163</b>	<b>6,182</b>	<b>5,639</b>	<b>5,537</b>
Trade receivables are shown net of impairment losses		<b>70</b>	<b>50</b>	<b>63</b>	<b>43</b>

## 14 CASH AND CASH EQUIVALENTS/BANK OVERDRAFTS

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Cash and cash equivalents per balance sheet	82	432	—	209
Bank overdrafts	(411)	—	(411)	—
Cash and equivalents per cash flow statements	<b>(329)</b>	<b>432</b>	<b>(411)</b>	<b>209</b>

## 15 TRADE AND OTHER PAYABLES

	Note	Group		Company	
		2006 £000	2005 £000	2006 £000	2005 £000
Trade payables		1,056	831	1,047	831
Other creditors including taxation and social security					
Other taxation and social security		193	170	183	164
Fair value derivatives	20	1	96	1	96
Other payables		494	205	389	86
Accruals and deferred income		1,743	1,971	1,682	1,887
		<b>3,487</b>	<b>3,273</b>	<b>3,302</b>	<b>3,064</b>

## 16 INTEREST-BEARING LOANS AND BORROWINGS

	Group and Company	
	2006 £000	2005 £000
Bank loans (see note 20)		
Amounts falling due within one year	400	400
	<b>400</b>	<b>400</b>
Amounts falling due in more than one year	700	1,100
	<b>700</b>	<b>1,100</b>

## 17 DEFERRED TAX ASSETS AND LIABILITIES

### Recognised deferred tax assets and liabilities – Group

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
Property, plant and equipment	—	—	3,090	3,327	3,090	3,327
Rolled-over gain	—	—	967	967	967	967
Inventories	(44)	(78)	—	—	(44)	(78)
Financial instruments	—	—	25	—	25	—
Employee benefits	(1,318)	(1,564)	—	—	(1,318)	(1,564)
Tax value of recognised losses carried forward	(55)	(54)	—	—	(55)	(54)
Tax (assets)/liabilities	(1,417)	(1,696)	4,082	4,294	2,665	2,598
Set off tax	1,318	1,564	(1,318)	(1,564)	—	—
Net tax (assets)/liabilities	(99)	(132)	2,764	2,730	2,665	2,598

At 31 December 2006 a deductible temporary difference of £549,000 (2005 £882,000) relating to undistributed reserves in a subsidiary has not been recognised because the Group controls whether the liability will be incurred and is satisfied that it will not be incurred in the foreseeable future

#### Unrecognised deferred tax assets

The Group has \$6 1m of tax losses carried forward in the USA. These tax losses at a 35% tax rate and year end exchange rates have a value of £1 1m. The Group has only recognised £55,000 of these tax losses as a deferred tax asset representing what the Board believe is a reasonable estimate of the expected US tax utilisation in the near future

#### Movement in deferred tax during the year

	Balance 1 January 2006 £000	Recognised in income £000	Recognised in equity £000	Balance 31 December 2006 £000
Property, plant and equipment	3,327	(237)	—	3,090
Rolled-over gain	967	—	—	967
Inventories	(78)	34	—	(44)
Financial instruments	—	—	25	25
Employee benefits	(1,564)	134	112	(1,318)
Tax value of recognised losses carried forward	(54)	(1)	—	(55)
	2,598	(70)	137	2,665

#### Movement in deferred tax during the prior year

	Balance 1 January 2005 £000	Recognised in income £000	Recognised in equity £000	Balance 31 December 2005 £000
Property, plant and equipment	3,891	(564)	—	3,327
Rolled-over gain	830	137	—	967
Inventories	22	(100)	—	(78)
Employee benefits	(2,158)	607	(13)	(1,564)
Tax value of recognised losses carried forward	—	(54)	—	(54)
	2,585	26	(13)	2,598

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 17 DEFERRED TAX ASSETS AND LIABILITIES CONTINUED

### Deferred tax assets and liabilities – Company

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
Property, plant and equipment	—	—	3,090	3,327	3,090	3,327
Rolled-over gain	—	—	967	967	967	967
Financial instruments	—	—	25	—	25	—
Employee benefits	(1,318)	(1,564)	—	—	(1,318)	(1,564)
Tax (assets)/liabilities	(1,318)	(1,564)	4,082	4,294	2,764	2,730
Set off tax	1,318	1,564	(1,318)	(1,564)	—	—
Net tax liabilities	—	—	2,764	2,730	2,764	2,730

### Movement in deferred tax during the year

	Balance 1 January 2006 £000	Recognised in income £000	Recognised in equity £000	Balance 31 December 2006 £000
Property, plant and equipment	3,327	(237)	—	3,090
Rolled-over gain	967	—	—	967
Financial instruments	—	—	25	25
Employee benefits	(1,564)	134	112	(1,318)
	2,730	(103)	137	2,764

### Movement in deferred tax during the prior year

	Balance 1 January 2005 £000	Recognised in income £000	Recognised in equity £000	Balance 31 December 2005 £000
Property, plant and equipment	3,891	(564)	—	3,327
Rolled-over gain	830	137	—	967
Employee benefits	(2,158)	607	(13)	(1,564)
	2,563	180	(13)	2,730

## 18 SHARE CAPITAL

	2006 £	2005 £
Authorised		
At 31 December		
Equity 56,000,000 ordinary shares of 5 0p each	2,800,000	2,800,000
Allotted, called-up and fully paid		
At 31 December		
Equity 36,319,924 (2005 36,319,924) ordinary shares of 5 0p each	1,815,996	1,815,996

Details of share options are provided in note 8 to the accounts on page 49

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company

## 19 CAPITAL AND RESERVES

### Reconciliation of movement in capital and reserves – Group

	Share capital £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Hedging reserve £000	Retained earnings £000	Total equity £000
<b>Balance at 1 January 2005</b>	1,813	13,707	5	(576)	—	9,104	24,053
Total recognised income and expense	—	—	—	846	(79)	2,398	3,165
Shares issued	3	46	—	—	—	—	49
Equity-settled share-based payment transactions net of tax	—	—	—	—	—	(14)	(14)
Dividends	—	—	—	—	—	(1,631)	(1,631)
<b>Balance at 31 December 2005</b>	<b>1,816</b>	<b>13,753</b>	<b>5</b>	<b>270</b>	<b>(79)</b>	<b>9,857</b>	<b>25,622</b>
Balance at 1 January 2006	1,816	13,753	5	270	(79)	9,857	25,622
Total recognised income and expense	—	—	—	(905)	163	1,506	764
Equity-settled share-based payment transactions net of tax	—	—	—	—	—	86	86
Dividends	—	—	—	—	—	(1,634)	(1,634)
<b>Balance at 31 December 2006</b>	<b>1,816</b>	<b>13,753</b>	<b>5</b>	<b>(635)</b>	<b>84</b>	<b>9,815</b>	<b>24,838</b>

The aggregate current and deferred tax relating to items that is charged to equity is £137,000 (2005 credit of £13,000)

### Reconciliation of movement in capital and reserves – Company

	Share capital £000	Share premium £000	Capital redemption reserve £000	Hedging reserve £000	Retained earnings £000	Total equity £000
<b>Balance at 1 January 2005</b>	1,813	13,707	5	—	7,907	23,432
Total recognised income and expense	—	—	—	(79)	2,956	2,877
Shares issued	3	46	—	—	—	49
Equity-settled share-based payment transactions net of tax	—	—	—	—	(14)	(14)
Dividends	—	—	—	—	(1,631)	(1,631)
<b>Balance at 31 December 2005</b>	<b>1,816</b>	<b>13,753</b>	<b>5</b>	<b>(79)</b>	<b>9,218</b>	<b>24,713</b>
<b>Balance at 1 January 2006</b>	<b>1,816</b>	<b>13,753</b>	<b>5</b>	<b>(79)</b>	<b>9,218</b>	<b>24,713</b>
Total recognised income and expense	—	—	—	163	838	1,001
Equity-settled share-based payment transactions net of tax	—	—	—	—	86	86
Dividends	—	—	—	—	(1,634)	(1,634)
<b>Balance at 31 December 2006</b>	<b>1,816</b>	<b>13,753</b>	<b>5</b>	<b>84</b>	<b>8,508</b>	<b>24,166</b>

The aggregate current and deferred tax relating to items that is charged to equity is £137,000 (2005 credit of £13,000)

#### Translation reserve

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations

#### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedging transactions that have not yet occurred

## 20 FINANCIAL INSTRUMENTS

### Policy

The Group does not enter into significant derivative transactions. The Group's principal financial instruments comprise bank loans, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. It is and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, liquidity risk and foreign exchange risk. The Board reviews and agrees policies for managing each of these risks and they are summarised overleaf. These policies have remained fundamentally unchanged throughout the year.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 20 FINANCIAL INSTRUMENTS CONTINUED

### Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

In 2006 and 2005, the Group had credit insurance to mitigate this risk. However, not all the exposure is covered so elements of risk remain.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the Balance Sheet.

### Interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings. The Group borrows in the desired currency generally at a variable rate of interest.

The interest rate profile of the Group's borrowings at 31 December was

	2006			2005				
	Effective interest rate	Fixed rates £000	Variable rates £000	Total £000	Effective interest rate	Fixed rates £000	Variable rates £000	Total £000
Sterling	6%	—	1,511	1,511	6%	—	1,500	1,500
		—	1,511	1,511		—	1,500	1,500

The interest rate payable on the sterling overdraft is determined by LIBOR (or similar) plus a bank margin.

### Liquidity risk

The Group's objective is to maintain a balance of continuity of funding and flexibility through the use of overdrafts, loans and finance leases as applicable. The maturity profile of the Group's borrowings is shown in note 16 on page 52.

The Group has a short-term facility of £5.0m which is freely transferable and convertible into sterling.

This facility expires in April 2007 and is utilised by Zotefoams plc and its subsidiary undertakings under a cross-guarantee structure.

On 25 August 2004 Zotefoams plc borrowed £2.0m under a five year mortgage, repayable in equal quarterly instalments. This facility is secured over specific plant assets.

### Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases, assets and liabilities which are denominated in a currency other than sterling. The currencies giving rise to this risk are primarily the euro and the US dollar.

The euro and US dollar rates used in preparing the accounts are as follows:

	2006		2005	
	Average	Closing	Average	Closing
Euro/sterling	1.4667	1.4840	1.4584	1.4550
US dollar/sterling	1.8535	1.9570	1.8192	1.7170

The Group hedges a proportion of its estimated cash exposure in respect of trade and other receivables, trade and other payables and forecast sales receipts and purchase payments for the next nine months. The Group uses forward exchange contracts to hedge its foreign currency risk. As at 31 December 2006 these forward currency contracts covered approximately two-thirds of the estimated net cash foreign exchange exposure for the next nine months.

In respect of other monetary assets and liabilities held in currencies other than the euro and the US dollar, the Group ensures that the net exposure is kept to a manageable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

### Forecasted transactions

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value. The net fair value of forward exchange contracts used as hedges of forecasted transactions at 31 December 2006 was a net asset of £84,000 (2005 net liability of £79,000) comprising assets of £85,000 (2005 £17,000) and liabilities of £1,000 (2005 £96,000) that were recognised in fair value derivatives in 2006.

### Recognised assets and liabilities

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the Income Statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of administrative expenses (see note 3).

### Sensitivity analysis

In managing currency risks the Group aims to reduce impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

Short-term fluctuations in interest rates are not hedged as the Group, at present, does not consider them material. At 31 December 2006 it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before tax by approximately £15,000 (2005 £15,000).

At 31 December 2006 it is estimated that an increase of one percentage point in the value of sterling against the euro and the dollar would decrease the Group's profit before tax by approximately £44,000 (2005 £43,000) and £30,000 (2005 £45,000) respectively. The forward exchange contracts have been included in this calculation.

## 20 FINANCIAL INSTRUMENTS CONTINUED

### Sensitivity analysis continued

The Group has significant undertakings in the USA whose revenue and expenses are denominated in US dollars. Zotefoams plc makes a significant proportion of its sales to European customers and these revenues are predominantly in euros. It was the Group's policy in 2006 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.

### Fair values

The fair values together with the carrying amounts shown in the Balance Sheet are as follows:

	2006		2005	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Trade and other receivables	6,078	6,078	6,165	6,165
Cash and cash equivalents	(329)	(329)	432	432
Forward exchange contracts				
– assets	85	85	17	17
– liabilities	(1)	(1)	(96)	(96)
Secured bank loans	(1,100)	(1,100)	(1,500)	(1,500)
Trade and other payables	(3,486)	(3,486)	(3,177)	(3,177)

### Estimation of fair values

The following summarises the major methods and assumptions used in estimating fair values of financial instruments reflected in the table.

### Derivatives

Forward exchange contracts are marked to market using listed market prices.

### Interest-bearing loans and borrowings and trade and other receivables/payables

Carrying amounts equals the fair value.

## 21 COMMITMENTS

	2006 £000	2005 £000
(i) Capital contracts at the end of the financial year for which no provision has been made	689	1,088
(ii) The Group has non-cancellable operating lease rentals, which are payable as follows:		
– within one year	63	74
– between two and five years	2	37

During the year ended 31 December 2006 £74,000 was recognised as an expense in the Income Statement in respect of operating leases (2005: £92,000).

The above amounts apply to both Company and the Group.

## 22 EMPLOYEE BENEFITS

The Group and Company operate one defined benefit scheme in the UK which offers both pensions in retirement and death benefits to members. Pension benefits are related to the members' final salary at retirement and their length of service. Since 1 October 2001 the scheme has been closed to new members.

From 31 December 2005 future accrual of benefits for existing members of the scheme ceased.

Contributions to the plan for the year from the Company have been agreed with the Trustees at £50,000 per month from January 2006 to December 2010.

The Company has opted to recognise all actuarial gains and losses immediately via the Statement of Recognised Income and Expenditure (SORIE). An actuarial valuation of the scheme was carried out as at 5 April 2005 and the results have been updated to 31 December 2006 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	As at 31 December 2006	As at 31 December 2005
Discount rate	5.10%	4.80%
Expected return on plan assets	6.58%	6.13%
Rate of salary increase	n/a	4.40%
Rate of increase to pensions in payment	3.00%	2.80%
Rate of inflation	3.10%	2.90%
Mortality assumption	90% of PA92	90% of PA92

The assumptions used in determining the overall expected return of the scheme have been set with reference to yields available on government bonds and appropriate risk margins.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 22 EMPLOYEE BENEFITS CONTINUED

The assets in the scheme and the expected rates of return were

	Long-term rate of return expected at 31 December 2006	Value at 31 December 2006 £000	Long-term rate of return expected at 31 December 2005	Value at 31 December 2005 £000
Equities	7.1	12,402	6.6	11,387
Bonds	4.6	2,437	4.1	1,915
Other	5.0	1,022	4.5	957
		<b>15,861</b>		<b>14,259</b>
<b>Present value of defined obligation</b>				
Funded plans		<b>(20,101)</b>		<b>(19,479)</b>
Total		<b>(20,101)</b>		<b>(19,479)</b>
Deficit in the scheme		<b>(4,240)</b>		<b>(5,220)</b>
Related deferred tax asset		<b>1,272</b>		<b>1,566</b>
Net pension liability		<b>(2,968)</b>		<b>(3,654)</b>
<b>Reconciliation of opening and closing balances of the present value of the defined benefit obligation</b>				
Benefit obligation at beginning of year		<b>19,479</b>		18,721
Service cost		—		440
Interest cost		<b>922</b>		861
Contributions by plan participants		—		209
Actuarial loss		<b>233</b>		1,621
Benefits paid		<b>(552)</b>		(401)
Past service costs		<b>19</b>		—
Curtailments and settlements		—		(1,972)
Benefit obligation at end of year		<b>20,101</b>		19,479
<b>Reconciliation of opening and closing balances of the fair value of plan assets</b>				
Fair value of plan assets at beginning of year		<b>14,259</b>		11,529
Expected return on plan assets		<b>876</b>		787
Actuarial gain		<b>659</b>		1,579
Contributions by employers		<b>619</b>		556
Contributions by plan participants		—		209
Benefits paid		<b>(552)</b>		(401)
Fair value of plan assets at end of year		<b>15,861</b>		14,259
<b>The amounts recognised in the Income Statement are</b>				
Current service cost		—		440
Interest on obligation		<b>922</b>		861
Expected return on plan assets		<b>(876)</b>		(787)
Gains on settlements and curtailment		—		(1,972)
Past service cost		<b>19</b>		—
Total expense/(gain)		<b>65</b>		<b>(1,458)</b>

## 22 EMPLOYEE BENEFITS CONTINUED

The expense/(gain) is recognised in the following line items in the Income Statement

	Group and Company	
	2006 £000	2005 £000
Cost of sales	19	242
Distribution costs	—	38
Administrative expenses	—	160
Financial income	(876)	(787)
Finance costs	922	861
Exceptional gain in administrative expenses	—	(1,972)
	<b>65</b>	<b>(1,458)</b>

### Actuarial gains/(losses) shown in SORIE since 1 January 2004

Balance as at 1 January	222	264
Actuarial gains/(losses)	426	(42)
Balance as at 31 December	<b>648</b>	<b>222</b>

### History of scheme assets, obligations and experience adjustments

	As at 31 December 2006	As at 31 December 2005	As at 31 December 2004
Present value of defined benefit obligation	20,101	19,479	18,721
Fair value of scheme assets	15,861	14,259	11,529
Deficit in the scheme	(4,240)	(5,220)	(7,192)
Experience adjustments arising on scheme liabilities	233	1,621	93
Experience item as a percentage of scheme liabilities	1%	8%	0%
Experience adjustments arising on scheme assets	659	1,579	299
Experience item as a percentage of scheme assets	4%	11%	3%

### Other pension schemes

On 1 January 2006 a separate stakeholder scheme was set up for those employees who were originally in the closed defined benefit scheme. The contributions paid by the Company in 2006 were £534,000 (2005 nil).

In addition to this scheme, Zotefoams plc operates a stakeholder scheme which is open to employees who joined after 1 October 2001. The contributions paid by the Company in 2006 were £20,000 (2005 £12,000).

For US based employees Zotefoams Inc operates a 401(k) plan. The contributions paid by Zotefoams Inc in 2006 were £85,842 (2005 £106,000).

## 23 SHARE-BASED PAYMENTS

The Company has a share option scheme that entitles senior management personnel to purchase shares in the Company. Options are exercisable at a price equal to the average quoted closing market price of the Company's shares on the previous day. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Additionally, one share award and one SAYE share option scheme expired in 2005. These options were granted before 7 November 2002 and therefore the recognition and measurement principles in IFRS 2 have not been applied to these grants in accordance with the transitional provisions in IFRS 1 and IFRS 2.

Details of the vesting conditions for the share option awards are given in the Directors' Remuneration Report on page 25.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 23 SHARE-BASED PAYMENTS CONTINUED

Details of the options outstanding during the year are as follows

	2006		2005	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the period	3,029,219	76.2	2,834,868	76.9
Forfeited during the period	(872,865)	80.0	(767,817)	80.0
Exercised during the period	—	—	(64,152)	77.0
Granted during the period	111,801	80.5	1,026,320	77.0
Outstanding at the end of the period	2,268,155	74.9	3,029,219	76.2
Exercisable at the end of the period	—	—	—	—

The options outstanding at 31 December 2006 have an exercise price of between 72.5p and 80.5p and a weighted contractual life of eight years

The fair value received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of fair value of the services received was measured based on a Monte Carlo model up until 31 December 2005. From 1 January 2006 a Black-Scholes model has been used for option valuation. The contractual life of the option (ten years) is used as an input into this model. No allowance is made for early leavers.

### Fair value of share options and assumptions

The expected volatility is based on historic volatility since 1995

	7 April 2004	22 December 2005	27 March 2006
Share price (p)	72.0	75.5	79.5
Exercise price (p)	72.5	77.0	80.5
Expected volatility (expressed as weighted average volatility used in modelling under Monte Carlo model)	30%	28%	30%
Option life (expressed as weighted average life used in the modelling under Monte Carlo model)	five years	five years	five years
Expected dividends (p) (assumed to be increasing at 2.5% p.a.)	4.5	5	4.5
Risk-free interest rate (based on national government bonds)	4.8%	4.2%	4.4%
Fair value at grant date (p)	15.8	15.8	17.3

The share option awards are granted under a service condition and a performance condition. There are no market conditions associated with the share options.

The amounts recognised in the Income Statement for equity-settled share-based payments are as follows

	Group and Company	
	2006 £000	2005 £000
Within administrative expenses	64	(14)
Element of the above relating to Directors of Zotefoams plc	28	(10)

## 24 RELATED PARTIES

### Directors

The Directors of the Company as at 5 March 2007 and their immediate relatives control 0.3% of the voting shares of the Company. Details of Directors' pay and remuneration are given in the Directors' Remuneration Report on page 24. The Directors are considered to be the only key management personnel.

### Subsidiaries

Zotefoams plc owns 100% of the shares of Zotefoams Inc, which is incorporated in the USA. Transactions between Zotefoams plc and this subsidiary are as follows:

#### Income Statement

	Sales to		Service fees to		Interest from	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
Zotefoams Inc	4,049	4,143	72	47	288	287

#### Balance Sheet

	Interest-bearing loan owed by		Receivables owed by	
	2006 £000	2005 £000	2006 £000	2005 £000
Zotefoams Inc	3,321	5,824	879	940

## 25 ACCOUNTING ESTIMATES AND JUDGEMENTS

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

### Key sources of estimation uncertainty

In note 20 detailed analysis is given of the foreign exchange exposure of the Group and risks in relation to foreign exchange movements.

Under IAS 38 development costs must be capitalised when specified criteria have been met. Following a review of the Company's research and development expenditure, because of the uncertainties which still exist on the development of new products, it was concluded that no material development costs met the IAS 38 criteria for capitalisation and therefore all development costs have been expensed.

### Pensions assumptions

The assumptions made on rate of return and inflation are disclosed in note 22. These have a significant impact on the value of the Scheme's liabilities. The pension scheme liability as at 31 December 2006 has been calculated using 90% of the mortality rates as set out in the standard PA92 mortality tables, published by the Institute and Faculty of Actuaries, projected to year 2020 to allow for continuing improvements in member longevity. These adjusted rates suggest that a man aged 65 retiring at 31 December 2006 could expect to live, on average, until age 86. A 5% change in life expectancy would increase/decrease the pension scheme's IAS 19 liability by approximately £0.7m (£0.5m after deferred tax), all other things being equal.

# NOTICE OF 2007 ANNUAL GENERAL MEETING

Notice is hereby given that the AGM of Zotefoams plc (the "Company") will be held at the offices of Zotefoams plc, 675 Mitcham Road, Croydon CR9 3AL on 10 May 2007 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 Auditor's Report for the year ended 31 December 2006
- 2 To receive and approve the Directors' Remuneration Report for the year ended 31 December 2006
- 3 To declare a final dividend for the year ended 31 December 2006 of 3 Op per ordinary share, such dividend to be payable on 24 May 2007 to shareholders on the register at the close of business on 27 April 2007
- 4 To re-elect C G Hurst as a Director who retires by rotation
- 5 To re-elect D B Stirling as a Director who retires by rotation
- 6 To re-elect D A Campbell as a Director having been appointed since the last AGM
- 7 That KPMG Audit Plc be and are hereby re-appointed as auditor of the Company to hold office from the conclusion of this meeting until the conclusion of the next AGM at which accounts are laid before the Company and that the Directors be and are hereby authorised to fix their remuneration
- 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 £604,726 to such persons and on such terms as it thinks fit provided that this authority shall expire on the date of the next AGM 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

To consider and, if thought fit, to pass the following resolutions of which 11, 12, 13 and 14 will be proposed as ordinary resolutions and resolutions 9 and 10 will be proposed as special resolutions

- 9 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) to Section 94 (3A) 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 an issue 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 £90,799, and shall expire on the date of the next AGM 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 expiry make 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 This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of Section 94 (3A) of the said Act as if the words "pursuant to the authority conferred by the previous resolution" were omitted
- 10 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 plc 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 3,631,992 (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 any applicable taxes and expenses),
  - (c) the maximum price (exclusive of any applicable taxes and 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 London 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 AGM 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

#### **SPECIAL BUSINESS CONTINUED**

- 11 That the Company's Long-Term Incentive Plan (the '2007 LTIP') (the main features of which are summarised in the letter to shareholders dated 30 March 2007) and a copy of the draft rules of which are produced to this meeting and signed by the Chairman for the purpose of identification, be and is hereby approved and adopted and the Directors be and are hereby authorised to do all such acts and things as they may consider necessary or expedient to carry the same into effect
- 12 That the Company's Deferred Bonus Share Plan (the main features of which are summarised in the letter to shareholders dated 30 March 2007) and a copy of the draft rules of which are produced to this meeting and signed by the Chairman for the purpose of identification, be and is hereby approved and adopted and the Directors be and are hereby authorised to do all such acts and things as they may consider necessary or expedient to carry the same into effect
- 13 That the amendments to the Employee Share Option Plan (the "Option Plan"), (the main features of which are summarised in the letter to shareholders dated 30 March 2007) and a copy of the revised draft rules of which are produced to this meeting and signed by the Chairman for the purpose of identification, be and are hereby approved and adopted and the Directors be and are hereby authorised to do all such acts and things as they may consider necessary or expedient to carry the same into effect
- 14 That the Trust Deed of the Zotefoams 2007 Employee Benefit Trust (the "EBT") (the main features of which are summarised in the letter to shareholders dated 30 March 2007) and a copy of the draft rules of which are produced to this meeting and signed by the Chairman for the purpose of identification be and is hereby approved and adopted and the Directors be and are hereby authorised to do all such acts and things as they may consider necessary or expedient to carry the same into effect and to take account of the requirements of the London Stock Exchange

By order of the Board



**C G HURST**  
Company Secretary  
Zotefoams plc

Registered office  
675 Mitcham Road  
Croydon CR9 3AL

30 March 2007

#### **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 AGM 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,
  - (b) copies of Directors' service contracts, and
  - (c) copies of Directors' Deeds of Indemnity
- (iv) Only those members registered in the register of members of the Company as at 10.00am on 8 May 2007 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 10.00am on 8 May 2007 will be disregarded in determining the rights of any person to attend or vote at the meeting
- (v) Copies of the rules of the 2007 LTIP, Deferred Bonus Share Plan, Employment Share Option Plan and draft trust deed relating to the EBT are available for inspection during the business hours at the registered office of the Company and at MM & K Ltd, 1 Bengal Court, Birchin Lane, London EC3V 9DD on Mondays to Fridays (public holidays excluded) from the date of this Notice and at the place of the AGM from 9.45am on the day of the meeting until the conclusion of the AGM

# FIVE YEAR TRADING SUMMARY

	IFRS 2006 £m	IFRS 2005 £m	IFRS 2004 £m	UK GAAP 2003 £m	UK GAAP Restated 2002 £m
Turnover	30 1	28 0	25 2	23 5	23 5
Operating profit (excluding exceptional items)	2 8	2 0	1 6	1 1	2 2
Profit before tax (excluding exceptional items)	2 7	1 8	1 3	1 0	2 0
Profit before tax (including exceptional items)	1 6	3 3	1 3	1 0	8 6
Profit after tax	1 2	2 4	1 2	0 7	6 0
Capital expenditure	2 6	1 1	1 3	1 6	5 2
Cash generated from the operations	4 7	4 1	5 3	3 5	11 0
Dividends per ordinary share (p)	4.5	4 5	4 5	4 5	7 5
Earnings per share excluding exceptional items (p)	5.4	3 5	3 2	2 0	4 0
Earnings per share including exceptional items (p)	3 4	6 7	3 2	2 0	16 6

The amounts disclosed for 2003 and earlier periods is stated on the basis of UK GAAP because it is not practicable to restate amounts prior to the date of transition to IFRS

## FINANCIAL CALENDAR

AGM	10 May 2007
Payment of final dividend	24 May 2007 to shareholders on the register at the close of business on 27 April 2007
Announcement of 2007 interim results	August 2007
Payment of interim dividend	September 2007
Announcement of 2007 results	March 2008

### REGISTRARS

Enquiries concerning the holding of ordinary shares in the Company should be addressed to the registrars who should also be notified of any changes in a holder's address

The registrars are Computershare Investor Services Plc, PO Box 82 The Pavilions, Bridgwater Road, Bristol BS99 7NH

### WEBSITE

The Company has a website ([www.zotefoams.com](http://www.zotefoams.com)) which provides information on the business and products

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