



High-Performance Foams

for Specialist Markets

Worldwide

Welcome to Zotefoams

Overview and Business Review

The key strategic, financial and operational developments during the year

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Zotefoams is the world's leading manufacturer of cross-linked block foams. The global appeal of its high-performance foams ensures that Zotefoams' products are used in a wide range of markets including sports and leisure, packaging, aerospace, automotive, medical and construction as well as general industrial and consumer products.

Our strategy is to expand sales internationally and broaden our market appeal with unique new products supported by our commitment to quality, innovation and customer service.

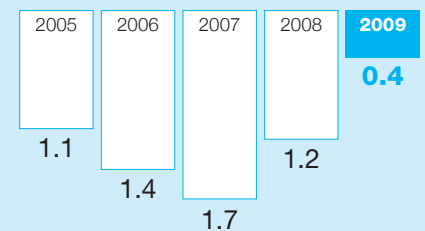
We are focused on achieving this while continuing to improve our operating margins, our return on capital employed and delivering our prime goal of sustained profit growth.

We have paid down debt while investing in our plant and in the development of new products. Zotefoams has a strong balance sheet and is well invested in productive capacity.

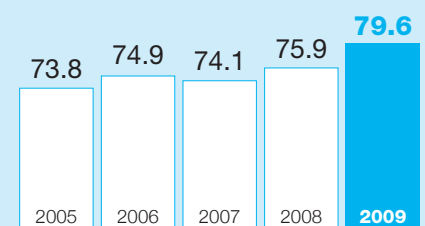
With a significant proportion of our business outside the UK we are well placed to benefit from any economic recovery in continental Europe, North America and Asia.

Our unique foaming technology is capital intensive and continued investment in process enhancement, additional capacity and new production methods underpins our commitment to our existing Azote® polyolefin foams business as well as our growing HPP foams segment.

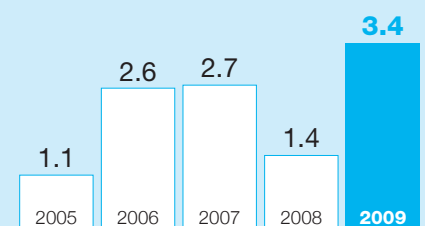
Net debt
(£m)



Export sales
(%)



Capital expenditure
(£m)



Strategy

Zotefoams' strategy is to grow our existing business in polyolefin foams while developing a portfolio of high-performance polymers.

Objectives:

Zotefoams measures its development and performance on four key objectives that represent the core elements of our strategy. We intend to:

Grow

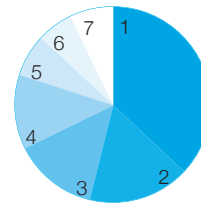
Grow sales in our polyolefin business

Action:

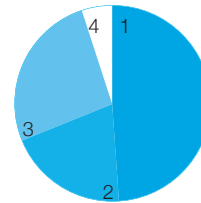
We have consistently invested in capacity, sales resource and product development in our polyolefins business. The five-year program of refurbishment and upgrade of all high-pressure vessels in Croydon was completed in 2009 and we have begun the two-year project of installing further expansion capacity. In Asia our polyolefin sales force has increased to three full time local staff and in North America we have introduced new, thicker products in response to customers' requests.

Forward-looking statements

This document contains statements that are not historical facts, but forward-looking statements that involve risks and uncertainties, including the timing and results of technical trials, product development and commercialisation risks, the risks of satisfying the regulatory approval process in a timely manner and the need for and the availability of additional capital. A discussion of these and other risks and uncertainties is contained in the Directors' Report under the section entitled 'Risks and Uncertainties'. These forward-looking statements are based on knowledge and information available to the Directors at the date the Directors' Report was prepared, and are believed to be reasonable at the time of preparation of the Directors' Report, though are inherently uncertain and difficult to predict. Actual results or experience could differ materially from the forward-looking statements.

**Revenue by Market Sector**

- 1 Packaging **37%**
- 2 Industrial **17%**
- 3 Transportation **14%**
- 4 Sport and leisure **12%**
- 5 Construction **7%**
- 6 Medical **6%**
- 7 Other **7%**

**Revenue by Region**

- 1 Europe **49%**
- 2 UK and Eire **20%**
- 3 North America **26%**
- 4 Rest of the World **5%**

Develop

Develop a High-Performance Polymers portfolio to deliver enhanced margins

Action:

Zotefoams now has three commercially launched product ranges within this segment. Sales increased by over 100% compared to 2008 and in 2009 accounted for 5% of group revenues. Our ZOTEK® F fluoropolymer foams are gaining traction in many aerospace applications and T-Tubes™ advanced insulation products are now receiving repeat orders after early stage trial installations in clean rooms in Europe and Asia. Late in 2009 we commissioned our microZOTE™ roll foam production line and early stage samples from this exciting development look promising.

Improve

Improve our operating margins

Action:

In 2009 and into 2010 our focus was to become more efficient in our manufacturing operations. Reduced demand from most segments caused us to restructure our business and reduce staff numbers. However, we have invested heavily in training and improvement techniques for our employees and our manufacturing process is being assessed to identify and reduce waste in all operations. This investment will, in the longer term, drive efficiencies that are a key element of our objective to improve our operating margins.

Profit

Improve our return on capital employed

Action:

Much of our capital base is relatively fixed, comprising buildings, plant and machinery. Due to the specialist nature of our operations, decisions to acquire additional plant often need to be made years in advance of equipment commissioning. Investing sensibly in plant over the medium term, ensuring that capacity is optimised and attention to detail on managing working capital are all key components of our capital base. We understand that our capital is invested to generate returns and these decisions are all made considering the impact on our ability to grow current and future profits.

Production Process

The physical properties of our foams enable us to offer a wide range of materials with a broad spectrum of performance attributes, suitable for a vast number of fundamentally unrelated applications across a wide spread of industries, throughout North America, Europe and Asia.



Characteristics

Zotefoams' materials are manufactured using pure nitrogen in a unique process, giving our foams significant advantages over competitive products. They are both easy and economical to process and provide added value opportunities for foam converters around the world.

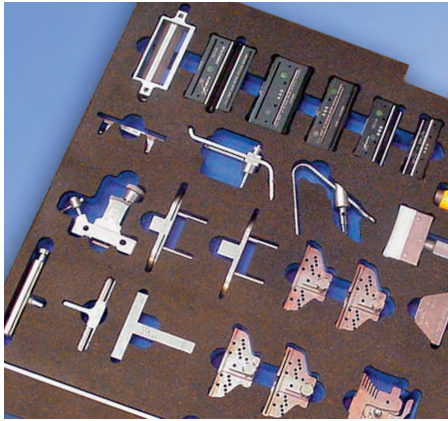


Quality

A Unique Process

Our unique 3 step manufacturing process with its nitrogen expansion technology produces cross-linked, closed cell foams of the highest quality that are consistent, light-weight and low-odour.

The 3 stages of the manufacturing process are: extrusion, high-pressure gassing and final stage expansion.



Consistency



Purity



Zotefoams

light-weight, pure,
low-odour, consistent,
with strong aesthetic
appeal thanks to their
deep colours and rich
textures.

Quality



Durability



Purity

Safe, clean and hygienic

Using only pure nitrogen to expand our foams provides a host of beneficial features that make our foams ideal for medical, food-safe and other clean applications.

Skin compatible

The foams have excellent skin compatibility, are MRI/CT/X-Ray lucent, have very little odour and contain no VOC or potentially corrosive chemical blowing agents.

Durability

Long-life protection

The combination of cross-linking and cell size uniformity produces foams with outstanding durability that are highly suitable for long-life use in a variety of protection applications.

Multi-trip

Ideal for multi-trip returnable packaging applications, Azote® foams represent a cost effective and greener alternative to expanded polystyrene foam packaging. The individual cells maintain their integrity for improved resistance to surface marking.

Consistency

Regular cell structure

Our foams are characterised by their consistent cell size and structure, features that improve mechanical properties and aesthetic appeal.

Efficient utilisation

The consistency of our foams enables efficient material utilisation and provides more reliable colour density.

Chief Executive's Discussion on Strategy

David Stirling



Q: Can you explain the basis of Zotefoams' business?

A: Zotefoams operates a unique manufacturing technology using high-pressure nitrogen gas to create blocks of speciality foam from a variety of polymers. These foams are sold to specialist companies who convert the blocks into products. Our foams are used in diverse applications across a range of markets, with the packaging, sports and leisure, and transportation sectors accounting for approximately 63% of our business.

Q: What's so special about the technology?

A: Basic understanding of the technology to create foam by dissolving nitrogen gas into solids dates back to the early 20th Century. However, the ability to control the technology on the scale necessary for commercial production, and the capital investment required have, over the years, left Zotefoams in the unique position to use this system. By using nitrogen gas we have installed capacity which is flexible enough to expand a wide range of polymers into foam using an environmentally friendly system. This know-how combined with the capital intensity is a tremendous barrier to entry in a competitive worldwide market.

The foundation for our future success is to develop a portfolio of businesses where we enjoy a competitive advantage in serving current and future customers.

We now have a strong portfolio of products for the future and a strong balance sheet. Our Azote® business is well invested, profitable and highly cash generative.

Q: If the technology is that old, what has changed?

A: Markets are changing and we have the ability to respond. Applications are becoming more demanding and the future of Zotefoams' business will follow these trends. In medical markets our foams combine high-performance with purity and for industrial applications we offer unrivalled consistency. Our Azote® brand polyolefin foams (mainly made from low density polyolefin "LDPE") sell as far away as Japan and Australia due to their unique properties. China is a growing market for the same reason.

Q: Surely Asia is a long way to ship product which is mainly air?

A: True. Our lightest products are only about 1.5% plastic (98.5% air) and these are some of the more popular products, particularly in Japan where the purity is especially valued. Our approach in North America, where we send "solid plastic slabs" with nitrogen gas already dissolved in the plastic before the final foaming at our facility in Kentucky, is designed to overcome the logistics barrier associated with long-distance shipping of very light products. As our market grows in Asia a similar local presence may be the right strategy to minimise the logistics costs and maximise market opportunity.

Q: Technology seems to be important to you. Why?

A: The foundation for our future success is to develop a portfolio of businesses where we enjoy a competitive advantage in serving current and future customers. With our nitrogen gas technology we can create foams which are not possible using other systems of foaming. Our ZOTEK® High-Performance Polymer foams are manufactured using the same fundamental technology but applying it to polymers with enhanced technical properties, such as fluoropolymers with inherent fire-retardance, or polyamide (nylon) offering high-temperature performance. Application of our technology combined with investment in marketing and sales resources over a period of years is required to realise the potential of these high return opportunities.

Q: Do you see any other advances in technology in the near future?

A: Our investment in MuCell Extrusion LLC, a joint venture with Trexel Inc. in Massachusetts, USA, has potential to apply a complementary foam technology in many markets. At the heart of their process is applying pressurised gas (typically CO₂) to polymer extrusion systems. Many products which can be extruded as solid polymers can also be extruded as foam – either light density materials created with high expansion ratios such as those currently produced by Zotefoams, or with low expansion ratios which use less polymer but can be virtually indistinguishable from the solid plastic part.

Q: How is this applied commercially?

A: The MuCell business model is to license their technology to makers of foam parts. Most of these applications are specialised and using the MuCell® technology, through an application specific licence, licencees can improve product performance and/or their cost base using an environmentally friendly technology. MuCell supports the technology and is remunerated by royalty and licence fees.

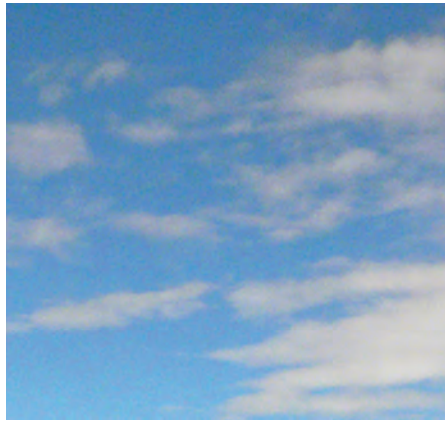
Q: Do MuCell® licencees compete with Zotefoams?

A: The MuCell® process works with thin section parts or extruded profiles. Typically there is very minimal competition between these types of foams and Zotefoams' current products. However, there is sufficient overlap at some end users or foam converters that Zotefoams has licensed the MuCell® technology to use in the manufacture of thin roll foams. We are at the forefront of this development and in 2009 invested significantly in the machinery necessary to scale this up to commercial production.

Q: So, how do you feel the business is currently positioned?

A: We now have a strong portfolio of products for the future and a strong balance sheet. Our Azote® business is well invested, profitable and highly cash generative. Within our ZOTEK® HPP business fluoropolymer foams are profitable and we continue to add market-facing resources to drive into new areas of opportunity. Our T-Tubes™ high-performance insulation is growing strongly, with priority being given to market penetration. Commercial quantities of nylon foams are expected to be available early in 2010, later than anticipated but with good potential if certain market requirements can be met. Development of foams using our MuCell licence, under the brand name "microZOTE™", began in Croydon early in 2010 following the commissioning of our dedicated production line. Building this business segment initially will be resource intensive, although we anticipate a successful outcome opening up significant new markets for Zotefoams. I am delighted to have continued our development strategy through difficult economic conditions in 2009 and we are well positioned for future growth.

Case studies



Plastazote®

Summit XL mats combine the lightweight insulating properties of Plastazote® with the enhanced durability of Evazote® for ultimate performance.



Kaspersky Commonwealth Antarctic Expedition

The Kaspersky Commonwealth Antarctic Expedition which saw 8 women from the Commonwealth countries of Cyprus, Ghana, India, Singapore, Brunei, New Zealand, Jamaica and the United Kingdom brave blizzards, crevasses and temperatures below -30°C as they skied over 900 kilometres across Antarctica to the Geographic South Pole.

The team selected Summit XL mats from the Multimat Expedition range to keep them comfortable and well rested during their journey. These mats combine the lightweight insulating properties of Plastazote® with the enhanced durability of Evazote® for ultimate performance.

High quality foams from Zotefoams play vital roles in a wide range of technical, functional and aesthetic applications.



T-Tubes™

Crucell, a global biopharmaceutical company and the largest independent vaccine company in the world, chose T-Tubes™ for clean room insulation.

T-Tubes™ in Vaccine Manufacturing

Crucell, a global biopharmaceutical company and the largest independent vaccine company in the world, chose T-Tubes™ for clean room insulation when relocating its Berna Biotech production facility in Korea. Speed of installation, efficiency in performance, durability and ease of repair were critical factors in the procurement decision.

Case studies



Plastazote®

Renthal Fatbar handlebar yoke protection pads, manufactured from impact absorbing Plastazote® LD45.

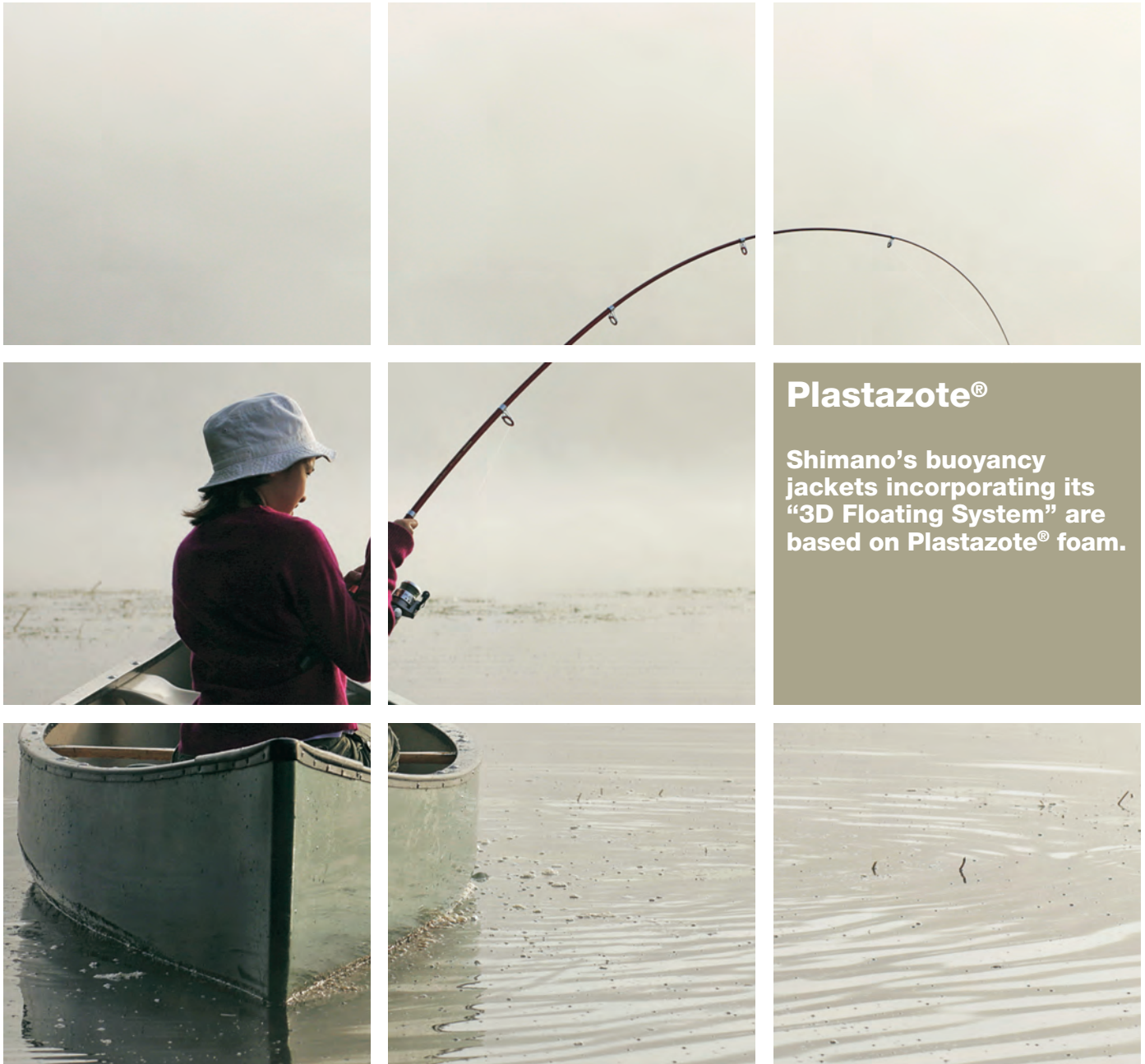


Plastazote® Leads the World

Renthal Fatbar handlebar yoke protection pads, manufactured from impact absorbing Plastazote® LD45, have helped safeguard many championship and club Motocross riders including Marvin Musquin, winner of the World MX2 Championship 2009.

Kawasaki ATV, KTM and Suzuki offer them as original equipment where this design of bar is preferred within their ranges.

High quality foams from Zotefoams are used around the world by customers who value their unique combination of performance properties.



Plastazote®

Shimano's buoyancy jackets incorporating its "3D Floating System" are based on Plastazote® foam.

Fishing Vest Buoyancy

Shimano, the Japanese sports goods company, has developed buoyancy jackets for fishing, incorporating its "3D Floating System" based on Plastazote® foam supplied by Zotefoams' distributor Inoac.

Being closed cell material all Azote® polyolefin foams have natural buoyancy. This buoyancy is retained, even if the material is pierced and punctured.

Chairman's Statement

Nigel Howard



Strategy

Zotefoams' strategy is to grow its existing business in polyolefin foams while developing a portfolio of high-performance polymers. We will seek to expand through a combination of profitable organic growth of both our Polyolefin and High-Performance Polymers ("HPP") businesses and through partnerships or acquisitions in related technologies, products or markets.

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 continue to consider a similar operation, either under a licence or as a joint venture, as sales increase to a level where such an investment becomes financially attractive. We are also committed to developing a portfolio of unique foam products from high-performance materials with significant competitive advantages over rival materials. This will allow us to command higher margins and affirm our position as a leading foam technology company. We intend to achieve this growth while continuing to improve our operating margins and our return on capital employed.

We intend to grow sales in our core polyolefin business and develop a portfolio of unique foam products from high-performance materials with significant competitive advantages over rival materials.

Board

Our Board composition provides a balance of experience and independence, all aligned to our business needs and objectives. During 2009 there have been no changes to our Board.

Employees

Our business relies on our employees and the restructuring of the business, a consequence of difficult economic conditions made 2009 a difficult year for everyone at Zotefoams. On behalf of the Board I would like to thank all of our employees, past and present, whose talents, efforts and dedication sustained us through 2009.

Results

In an extremely adverse economic environment, our 2009 profit before tax and exceptional items was £3.16m (2008: £3.93m). Cash generated from operations was £7.04m (2008: £5.77m) and we finished the year with a net debt of £0.43m (2008: £1.15m), our lowest level of net debt for many years. Exceptional costs of £0.41m were incurred relating to the restructuring programme undertaken in the first half of the year. Sales were £31.82m (2008: £34.78m) as sales volumes declined approximately 21% compared to 2008, although this was to some extent offset by the beneficial impact of exchange rates and an improved sales mix with our higher-margin HPP segment sales now accounting for 5% of sales (2008: 2% of sales). Profit before tax after exceptional items totalled £2.75m (2008: £3.93m, which included no exceptional items). Before exceptional items, gross margins increased to 31% (2008: 29%) and operating margins declined from 12% to 11% of sales. During the year we invested £1.44m in equipment to make thin roll foam based on technology from MuCell, our associate company in the USA. Although this is at an early-stage of development, we expect to generate our first sales in 2010 under the new brand of microZOTE™ technical foams.

Dividend

The Board proposes to pay a maintained final dividend of 3.0p per ordinary share which would make a total of 4.5p per ordinary share for the year (2008: 4.5p). At this level the dividend would be covered 1.5 times by post-tax earnings excluding exceptional items. If approved, the dividend will be paid on 20 May 2010 to shareholders on the register on 23 April 2010.

Outlook

We have experienced an encouraging start to 2010 with improved sales volumes across all major territories within our Azote® business. We also continue to make good progress in the development and sales of ZOTEK® HPP block foams and initial product development on our microZOTE™ roll foam line, commissioned late in 2009, looks promising at this very early stage. Exchange rates for the first two months of the year have been at similar levels to our 2009 average. Raw material costs are currently significantly higher than last year but are more than offset by the benefits of the increased sales volumes being experienced in the year to date.

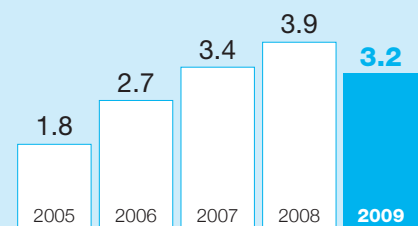
Zotefoams operates in global markets across a wide variety of industries and is influenced by the global economic situation which remains uncertain. We enter 2010 with the belief that our robust operational cash generation in 2009 and investment in product development positions us well for the future. We have a strong balance sheet and low level of debt and are well placed to benefit as and when world markets recover.

Nigel Howard

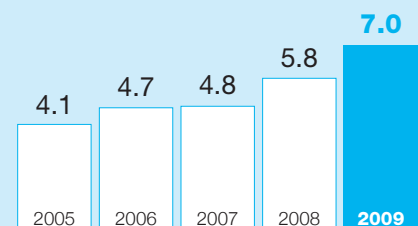
Chairman
8 March 2010

We enter 2010 with the belief that our robust operational cash generation in 2009 and investment in product development position us well for the future.

Profit before tax
(excluding exceptional items)
(£m)



Cash generated from operations
(£m)



Business Review

David Stirling and Clifford Hurst



David Stirling
Managing Director



Clifford Hurst
Finance Director

Key to growing our business successfully is developing and maintaining 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.

Zotefoams 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, construction, 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' business falls into two distinct product 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. Azote® 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. HPP polymers use the processing technology developed for polyolefin foams and applies it 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, chemical processing and automotive where market development lead times are long. The timing of revenue generation is therefore inherently difficult to predict.

Our Azote® polyolefin foams are used in many segments both geographically and by application. This diversification helps insulate the business from the risks associated with a concentration of business. However, during 2009 the poor economic conditions affected all markets to varying extents, but particularly in automotive and construction. Sales volumes declined in all regions other than Asia which is an emerging market for Zotefoams. We began to see a weakening of sales volumes from November 2008 and responded appropriately through reductions in temporary manpower and overtime. During 2009 sales volumes declined by 21% and in March we took the decision to restructure the business, reducing the number of permanent employees and controlling costs to match lower activity levels. The costs

associated with this exercise are shown as an exceptional item and described more fully on page 16.

During the economic downturn we have continued to invest in areas we believe will benefit our future performance. In particular we continued with significant levels of employee training (with an average of 1.4 days per employee completed during the year), put more resource into sales and marketing (increasing staff numbers in Asia to match the levels of opportunity there) and increased our maintenance spend by 9%.

Despite the global recession, HPP sales grew by 105% during 2009 to £1.64 million. ZOTEK® F fluoropolymer foams currently represent approximately 80% of this business, T-Tubes™ high-performance insulation sales grew in excess of 150% over last year and small amounts of nylon foams were sold late in the year. Our HPP business contributed 5% of Group revenues (2008: 2%) while the operating loss on this segment was at similar levels to last year due to increased investment in sales, marketing and product development. In particular development of consistent nylon foams has been a priority and during 2009 we also began to develop our microZOTE™ line of thin roll foams using technology licensed from our associate company MuCell Extrusion LLC ("MEL"). Capital expenditure in this business segment of £1.51m (2008: £0.03m) and depreciation and amortisation costs of £151,000 (2008: £81,000) primarily relates to investment in extrusion systems and amortisation of associated licence fees for microZOTE™. We now have a strong commercial and development pipeline in our HPP business and are already exploring opportunities in other areas for future growth.

MEL is involved in the development and licensing of technology for microcellular foam extrusion sheet and profiles. This technology is widely applicable for many users of polymer extrusion systems and is currently in commercial use on three continents and future expectations are backed by a strong development pipeline. MEL is seasonally more profitable in the first six months of the year and, as the number and maturity of licences increased, so did Zotefoams' share of these profits, which was £99,000 (2008: a loss of £27,000 in the six months from date of acquisition). Zotefoams owns 30% of MEL and holds an option which can be exercised, subject to certain conditions, between July 2010 and June 2011 to acquire the remaining balance of 70% of the shares in MEL.

Zotefoams' powerful brands offer significant marketing opportunities in a global portfolio of diverse applications across many industries.

Azote®

Azote® is the group brand name for Zotefoams' polyolefin foams. These are high quality foams from differing base polymers but all manufactured using the same unique nitrogen expansion process route.

Azote® was used formerly as a name for nitrogen and is still used by French chemists to refer to the element. Azote® foams derive many of their exceptional properties directly from the use of this inert, tasteless, odourless gas in the manufacturing process. Zotefoams' well known product brands names:

Plastazote®, Evazote®, Supazote® and Propozote® continue to stand for individual product types within the overall Azote® product range.

Business Review continued

MuCell®

MuCell Extrusion LLC ("MEL") was formed to license this foaming technology to a wide variety of applications and markets. Zotefoams investment in MEL keeps us at the forefront of foam technology where we expect to benefit from the worldwide trend towards reducing material content while achieving high-performance. Zotefoams' licence from MEL to develop this technology for manufacture and sale of thin sheets or rolls of foam gives us the potential to access additional areas of the market for speciality foams with a less capital intensive, scalable technology.

Strategy and Objectives

Zotefoams' strategy is to grow its existing business in polyolefin foams while developing a portfolio of high-performance polymers. In 2009 the business environment was much worse than it has been for many years causing high volatility and poor visibility in many markets. With the benefit of a strong balance sheet and good operating cash generation we were able to maintain our commitment to the long-term strategy of the business while simultaneously managing the shorter term issues caused by weakening sales volumes in our Azote® polyolefin foams business.

Our stated objectives are to:

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 HPP portfolio to deliver enhanced margins.
3. Improve our operating margins.
4. Improve our return on capital employed.

2009 was significantly impacted by the economic climate and our performance against these objectives was as follows:

1. Sales
 - a. Polyolefin sales volumes in the UK and Europe declined by 24%. Revenues declined by 15% due to a more favourable exchange rate against the euro and an improvement in sales mix and selling prices;
 - b. In North America polyolefin sales volumes declined by 13%. Our North American business experienced a downturn in activity late in 2008 and compared to UK and Europe began to recover earlier in 2009. Revenues declined 2% in value mainly as a result of more favourable currency rates;
 - c. In constant currency polyolefin revenues in Asia grew by 6% with sales volumes increasing by 3%. This was a promising performance relative to global economic conditions.

2. HPP sales grew by 105%. The majority of sales are from our ZOTEK® F fluoropolymer foams where aviation and high-performance insulation are currently the two largest markets. The operating loss on this segment was similar to 2008 due to increased sales and marketing costs and development costs for nylon foams and our MuCell® technology.
3. Group operating margins, before exceptional items, declined by 0.9% to 10.7% as relatively fixed costs were absorbed over lower sales volumes.
4. Pre-tax return on average capital employed, excluding exceptional items, declined from 14% to 11% reflecting lower profitability with capital employed at similar levels to last year.

Financial Results

Group turnover fell by 9% in absolute terms and 17% in constant currency. Gross margin excluding exceptional items increased by 2%, from 29% to 31%, mainly due to favourable exchange rates arising from a weaker pound. Although we hedge part of our foreign currency exposure forward we recorded a £0.76m exchange loss within our administrative expenses (2008: £0.19m loss).

Our major raw materials are commodity polymers. The price of low density polyethylene, by far our largest raw material cost, averaged £840 per tonne in 2009 compared to £1,000 per tonne in 2008.

Distribution costs (which include selling expenses) were similar to 2008 as were administration expenses excluding the £0.76m foreign exchange loss (2008: £0.19m) referred to above. Net financing costs increased to £0.36m (2008: £0.07m) due to a £0.27m notional net charge on the Company's Defined Benefit Pension Scheme ("the Scheme").

Due to the lower level of sales volumes experienced in the first half of the year staff numbers were reduced by 33 permanent employees in an exercise which commenced in March 2009. The costs of this exercise, net of a small VAT adjustment, have been recorded as an exceptional charge of £0.41m in the Income Statement. There were no exceptional items in 2008.

We purchased a 30% share of MuCell Extrusion LLC at the beginning of July 2008 and our share of its losses was £27,000, after amortisation costs, in the second half of 2008. Our share of its profit after amortisation in 2009 was £99,000. The business is seasonal and £94,000 of this profit relates to the first half of the year. During 2009 we received cash distributions of £104,000 (2008: £15,000) from MuCell.

Profit before tax and exceptional items was £3.16m (2008: £3.93m) and after exceptional items was £2.75m (2008: £3.93m).

The overall effective tax rate is 21% (2008: 24%) which is lower than the UK corporation tax rate of 28%. This is principally due to the lower tax charge incurred in our US subsidiary where we have brought forward tax losses and UK research and development tax credits. The cash impact of the tax charge is higher at 27% (2008: 27%) because of a deferred tax credit of £0.15m (2008: £0.15m) reflecting the difference in timing between tax allowances and accounting charges.

Earnings Per Share and Dividend

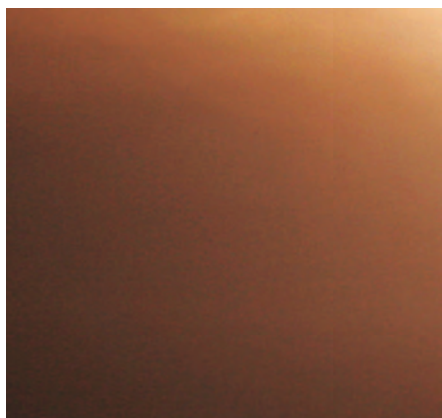
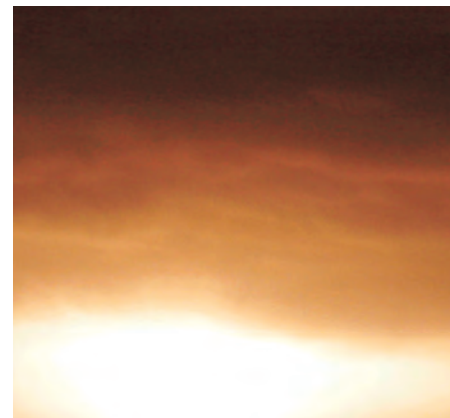
Group earnings per share were 6.8p (2008: 8.3p) before and 5.9p (2008: 8.3p) after exceptional items. The Directors are recommending that the final dividend is maintained at 3.0p per share, and, subject to shareholder approval, payable on 20 May 2010 to shareholders on the Company register at 23 April 2010. This would bring the total dividend to 4.5p per ordinary share for the year (2008: 4.5p).

Cash Flow

Despite lower revenues in 2009, EBITDA remained strong at £6.60m after exceptional items (2008: £6.96m). Cash generated from operations totalled £7.04m (2008: £5.77m) with a reduction in working capital of £0.86m offsetting payments to the pension fund of £0.72m. This funded capital expenditure of £3.43m (2008: £1.42m) which included finishing the refurbishment of a major high-pressure vessel and installing an extrusion line in Croydon to develop our microZOTE™ business. After the payment of dividends of £1.64m and tax of £1.12m, net debt was reduced by £0.72m (2008: £0.53m) to £0.43m (2008: £1.15m) and gearing remained low at 2% (2008: 4%).

Pensions

The gross IAS19 deficit on the Company's Defined Benefit Pension Scheme ("the Scheme") increased from £3.53m to £5.78m at 31 December 2009. The fall in corporate bond rates and rising expectations of inflation outweighed the benefits of an increase in the market value of investments and the contributions made by the Company to the Scheme. Company contributions to the Scheme in 2009 were £0.66m as agreed by the Company and the Trustees following the 2008 triennial review to reduce the deficit and ill-health early retirement/redundancy contributions of £0.08m. The Company closed the Scheme to future accrual of benefit in 2005.



ZOTEK® in Space

Equipment destined for space is invariably processed under clean room conditions, an environment where ZOTEK® F excels.

ZOTEK®

Equipment destined for space is invariably processed under clean room conditions, an environment where ZOTEK® F excels. Thanks to its excellent cushioning properties, flammability performance, high purity and low out-gassing potential, ZOTEK® F is highly effective for packaging because it resists abrasion and has no tendency to generate particles that could cause contamination.

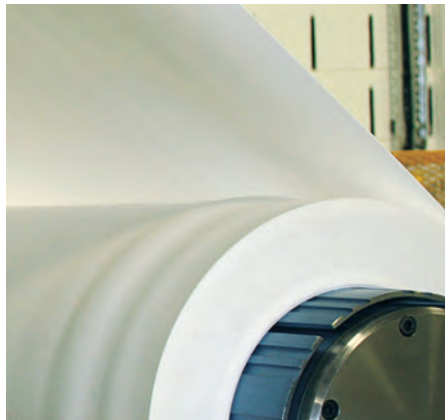


Business Review continued



Enhanced products

MuCell® technology is a patent-protected microcellular foaming system used to make sheets, profiles or tubes of foamed polymer.



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 31. 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.

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

MicroZOTE™

Development of foams using our MuCell licence, under the brand name "microZOTE™", began in Croydon early in 2010 following the commissioning of our dedicated production line. Building this business segment initially will be resource intensive, although we anticipate a successful outcome opening up significant new markets for Zotefoams.

always possible. We therefore monitor the situation closely and maintain “desk-top” studies of alternative 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.

Pension Liabilities

Zotefoams operates a Defined Benefit Pension Scheme with retirement benefits being based on final salary. The value of scheme liabilities and assets, along with the assumptions used in this valuation, are disclosed in note 23 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.

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 April 2008 the triennial actuarial review valued the Scheme deficit at £3.33m, an increase of £0.79m from the previous triennial review in April 2005. As a result of this review the Company agreed with the Trustees to pay £55,000 per month into the Scheme from January 2009 until June 2016 to eliminate this deficit, based on the actuarial assumptions made in April 2008.

Foreign Exchange

Zotefoams mainly sells in the local currencies of the customer and in 2009 approximately 80% 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 21 of the financial statements.

Financing

The Company finances its activities partly through the use of bank overdraft and loan facilities, the utilisation of which fluctuates during the year. The Company has a £4.90m overdraft facility which is repayable on demand and a £3.30m loan. This loan is repayable over five years, has no operating covenants and is secured against certain items of plant and equipment. At 31 December 2009 £0.50m of this loan had been repaid. Net debt at 31 December 2009 was £0.43m (2008: £1.15m) and gearing remains low at 2% (2008: 4%).

David Stirling

Managing Director

Clifford Hurst

Finance Director
8 March 2010

Directors and Advisers

Nigel Howard BSC ARCS*#

Non-executive Chairman and Chairman of the Nominations Committee

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

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

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.

Roger Lawson FCA*†#

Senior independent non-executive Director and Chairman of the Audit Committee

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 FCIPD*†#

Non-executive Director and Chairman of the Remuneration Committee

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.

Richard Clowes BSC C.ENG, M.I.MECH.E *†#

Non-executive Director

Appointed to the Board in July 2007. Previously worked for GKN plc and before that TI Group plc. He has wide operations and general management experience at both companies and whilst at GKN he was a Divisional Managing Director for their Powder Metallurgy, Offhighway and Autocomponents Divisions.

He was a main Board Director of GKN plc from 2001 to 2005.

* Member of the Remuneration Committee

† Member of the Audit Committee

Member of the Nominations Committee



Nigel Howard	David Stirling	Clifford Hurst
Roger Lawson	David Campbell	Richard Clowes

Registered Office

675 Mitcham Road
Croydon CR9 3AL

Registered Number

2714645

Financial Advisers

Hawkpoint Partners Limited
41 Lothbury
London EC2R 7AE

Auditors

KPMG Audit Plc
1 Forest Gate
Brighton Road
Crawley RH11 9PT

Bankers

Barclays Bank PLC
1 Churchill Place
London E14 5HP

Solicitors

Osborne Clarke
One London Wall
London EC2Y 5EB

Collyer-Bristow
4 Bedford Row
London WC1R 4DF

Registrars

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
www.computershare.com

Corporate Brokers

Evolution Securities Ltd
100 Wood Street
London EC2V 7AN

Directors' Report

The Directors present their annual report and audited financial statements for the year ended 31 December 2009.

Principal activity

The Group's principal activity is the manufacture and sale 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 2009 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 14 to 19.

Results and dividends

Profit attributable to shareholders for the year amounted to £2.16m (2008: £3.01m). An interim dividend of 1.5p (2008: 1.5p) per share was paid on 15 October 2009. The Directors recommend that a final dividend of 3.0p (2008: 3.0p) per share be paid on 20 May 2010 to shareholders who are on the Company's register at the close of business on 23 April 2010. This makes a total dividend of 4.5p per share for the year (2008: 4.5p).

Directors

The appointment, replacement and powers of Directors are governed by the Company's Articles of Association, the Combined Code, the Companies Act, prevailing legislation and resolutions passed at the Annual General Meeting ('AGM') or other general meeting of the Company.

All of the current Directors named on page 20 served throughout the year. The Directors retiring by rotation at the AGM are D A Campbell and D B Stirling who, being eligible, offer themselves for re-election. D A Campbell has a service contract which is terminable on six months' written notice and D B Stirling a service contract which is terminable on twelve months' written notice. Biographical details of D A Campbell and D B Stirling can be found in the section on Directors and Advisers on pages 20 and 21.

The Company has granted indemnities in favour of Directors under Deeds of Indemnity. These Deeds were in force during the year ended 31 December 2009 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 and Social Responsibility Report on page 31.

Substantial shareholdings

As at 8 March 2010, the Company had received notice of the following material interests of 3% or more in the issued ordinary share capital:

	Ordinary share of 5.0p	Percentage of issued share capital
Gartmore Investment Limited	5,749,533	15.01%
Schroder Investment Management	4,417,325	11.53%
Sekisui Alveo AG	3,814,762	9.96%
Aberdeen Asset Management PLC's Fund Management Subsidiaries	2,357,100	6.15%
Nicholas Adrian Beaumont-Dark	1,185,000	3.09%

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 £776,000 (2008: £731,000). This included work on PVDF, nylon and microZOTE™ 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 2009, trade creditors of the Company represented 30 days of purchases (2008: 36 days).

Share capital and reserves

The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

There were 516,387 shares issued during 2009 in respect of share options. These were all issued to the Zotefoams Employee Benefit Trust (EBT) and are held by the Trust in order to satisfy requirements under the Company's long-term incentive plans as described in the Directors' Remuneration Report. Movements in reserves are shown in the Statement of Changes in Equity. During 2009 3,338 shares were issued by the EBT to satisfy options exercised.

At the AGM held on 7 May 2009 the Company was given authority to purchase up to 3,778,070 of its ordinary shares. This authority will expire at the 2010 AGM. During the period from 7 May 2009 until the date of this report this authority was not used but in accordance with normal practice for listed companies 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 19 and in note 21 to the financial statements.

Pension scheme

The Company 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 no charitable contributions over £100 (2008: nil) and no political contributions (2008: nil) 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

Company Secretary
8 March 2010

Directors' Remuneration Report

This report has been prepared in accordance with the Companies Act 2006. 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 2006. 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. D A Campbell, R J Clowes, N G Howard and R H Lawson were members of this Committee throughout 2009 to the date of this report. All the members are independent non-executive Directors apart from N G Howard, who was independent on appointment as Chairman of the Company. The Committee was chaired throughout 2009 to the date of this report by D A Campbell.

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 decision about his own remuneration.

In determining aspects of the Directors' remuneration for the year, the Committee consulted D B Stirling (Managing Director) about its proposals. The Committee also referred to MM&K Limited, who are remuneration consultants. 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 2008.

The Company operates a salary sacrifice scheme under which employees can 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 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 section.

Benefits

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

Annual bonus payments

The Committee's normal policy on bonuses is that it 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. The bonus award is normally capped at 100% of bonusable salary. That element of the bonus payment over 40% of bonusable salary is paid in restricted shares which will only be capable of release if the executive is still employed by the Company three years later.

Annual bonus payments continued

In 2009 because of the economic uncertainty the Remuneration Committee changed the application of this bonus policy on an exceptional basis. In lieu of the cash bonus plan the Remuneration Committee put in place a share bonus plan (the "2009 Share Bonus Plan"). Under this plan members of the Executive Team could earn up to 100% of salary in shares and/or cash of which 50% of the award was based on a profit target, 40% on HPP sales growth and 10% on corporate objectives relating to cash management and other criteria. Any share award over 40% of bonusable salary (calculated using the average share price in December 2009) is restricted for three years under the rules of the Zotefoams Deferred Bonus Plan.

Share options and long-term incentives

The Company currently does not operate any long-term incentive schemes other than the schemes described below.

The main long-term incentive scheme operated by the Company is the Long-Term Incentive Plan (LTIP) award to the executive Directors and senior management. The LTIP awards are subject to performance conditions on Total Shareholder Return and EPS (excluding exceptional items) over a three year period. These performance criteria, which applied to all executive Directors to whom options have been granted under the Scheme, were chosen because the Committee believed it best aligned this incentive with shareholder interests. In 2009 an award of 50% of salary was made.

UK based executive Directors and senior management have also 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 three percentage points per annum 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.

The Company also has an Executive Share Option Scheme. This was replaced as the main long-term incentive scheme in 2007 by the LTIP award. No awards have been made under the Executive Share Option Scheme in 2009.

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 (the "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 2005. 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 and FTSE Small Cap Total Return Index ("TRI") re-based to 100 (January 2005 to December 2009).



Directors' Remuneration Report continued

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 and the Chairman 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.

Non executive Directors

All independent non-executive Directors and the Chairman 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 and the Chairman cannot participate in any of the Company's share options schemes and are not eligible to join the Company's pension scheme.

Information subject to audit

Directors' emoluments

Remuneration in £	Basic salary/fees	Operational bonus	Car allowance	Company pension contributions ⁽²⁾	Other benefits ⁽¹⁾	Total 2009	Total 2008
D A Campbell	24,500	—	—	—	—	24,500	24,875
R J Clowes	22,500	—	—	—	—	22,500	22,313
N G Howard	47,000	—	—	—	—	47,000	46,500
C G Hurst	99,944	—	10,561	19,061	1,272	130,838	152,205
R H Lawson	24,500	—	—	—	—	24,500	24,875
D B Stirling	142,584	—	11,640	22,107	1,231	177,562	210,124
	361,028	—	22,201	41,168	2,503	426,900	480,892

Note:

- Other benefits are calculated in terms of taxable values in the UK.
- The Company operates 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. Both 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 252 of the Companies Act 2006) in the ordinary shares of the Company are set out below:

Number of ordinary 5p shares	31 December 2009	31 December 2008
D A Campbell	5,939	5,939
R J Clowes	35,000	20,000
N G Howard	60,000	40,000
C G Hurst	78,745	78,745
R H Lawson	5,000	5,000
D B Stirling	102,711	79,979
	287,395	229,663

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 2008	Granted	Exercised	Lapsed	Cancelled	As at 31 December 2009	Exercise price	Exercisable	Expiry date
C G Hurst	Executive SOS	59,631	—	—	—	—	59,631	72.5p	7.04.2007	6.04.2014
C G Hurst	Executive SOS	115,909	—	—	—	—	115,909	77.0p	22.12.2008	21.12.2015
D B Stirling	Executive SOS	160,389	—	—	—	—	160,389	77.0p	22.12.2008	21.12.2015
C G Hurst	LTIP	80,000	—	—	(80,000)	—	—	nil	10.05.2010	n/a
D B Stirling	LTIP	114,509	—	—	(114,509)	—	—	nil	10.05.2010	n/a
C G Hurst	LTIP	51,777	—	—	—	—	51,777	nil	20.03.2011	n/a
D B Stirling	LTIP	74,112	—	—	—	—	74,112	nil	20.03.2011	n/a
C G Hurst	2007 Deferred Bonus	7,358	—	—	—	—	7,358	nil	20.03.2011	n/a
D B Stirling	2007 Deferred Bonus	14,201	—	—	—	—	14,201	nil	20.03.2011	n/a
C G Hurst	HMRC SOS	28,116	—	—	—	—	28,116	106.7p	12.08.2011	11.08.2018
D B Stirling	HMRC SOS	28,116	—	—	—	—	28,116	106.7p	12.08.2011	11.08.2018
C G Hurst	LTIP	—	116,413	—	—	—	116,413	nil	16.03.2012	n/a
D B Stirling	LTIP	—	166,630	—	—	—	166,630	nil	16.03.2012	n/a
C G Hurst	2009 Share Bonus Plan	—	46,263	—	—	—	46,263	nil	11.03.2010	n/a
D B Stirling	2009 Share Bonus Plan	—	66,220	—	—	—	66,220	nil	11.03.2010	n/a
C G Hurst	2009 Deferred Bonus	—	6,408	—	—	—	6,408	nil	10.03.2013	n/a
D B Stirling	2009 Deferred Bonus	—	9,173	—	—	—	9,173	nil	10.03.2013	n/a

2009 Share Bonus Plan

This Scheme which was introduced on an exceptional basis in 2009, as described in the earlier paragraph on Annual bonus payments. For the year ended 31 December 2009 an award was made of 29.75% of salary converted into shares at 60.5p per share; the mid-market share price when the scheme was put in place. For December 2009 the average share price was 92.6p and under the rules of the Scheme the award of shares was apportioned between those available on 11 March 2010 and those to be deferred for three years in the Deferred Bonus Plan as shown below:

	Shares to be awarded on 11 March 2010	Shares to be deferred for three years under the Deferred Bonus Plan
C G Hurst	46,263	6,408
D B Stirling	66,220	9,173

Executive Share Option Scheme (Executive SOS)

These options were granted under the Zotefoams Executive Share Option Scheme. This scheme was replaced by LTIP awards in 2007.

There were no options awarded under the Executive SOS in 2009 and 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 31 December 2009 was 92.0p and the high and low prices during the year were 101.0p and 42.5p respectively.

Long-term Incentive Plans (LTIP)

The LTIP awards made are subject to performance and service conditions. 50% of the award is subject to growth in Total Shareholder Return (TSR) and 50% subject to EPS growth. Performance is measured over a three year period and the proportion of restricted shares will be released to the participant, to the extent to which TSR and EPS targets over the period have been met.

For the 2009 award these criteria are:

	Threshold		Maximum	
	Performance Target	% of award vesting	Performance Target	% of award vesting
TSR goal	10% pa growth	12.5	25% pa growth	50
EPS goal	8.4p	12.5	13.0p	50

The total award vesting is the sum of the Awards for TSR and EPS. If the performance is below the EPS threshold then no part of the EPS award vests. If performance is below the TSR threshold then no part of the TRS award vests. Between the threshold and the maximum, the award vests on a sliding scale basis.

The market value of the 2009 LTIP shares granted was 46p on the date of the grant.

The LTIP awards made in May 2007 are subject to TSR and EPS thresholds for the year ended 31 December 2009. Based on the performance of the Company as at 31 December 2009, no shares vested under this award.

Directors' Remuneration Report continued

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 EPS increases over a three year period by at least three percentage points pa in excess of the increase in the Retail Price Index over the same period.

Directors' pension entitlements

The Zotefoams Defined Benefit Pension Scheme was closed to future accrual of benefits from 31 December 2005. At this time, all active members left the Scheme and were granted preserved pensions payable from their normal retirement age (or immediately, if the member had reached normal retirement age).

The following serving Directors were members of the Zotefoams Defined Benefit Pension Scheme and their benefits under this Scheme are shown below:

	Accrued pension in scheme at year end ⁽¹⁾ £	Gross increase in pension £	Increase in accrued pension net of inflation £	Value of accrued pension at year end ⁽²⁾ £	Value of accrued pension at start of year £
C G Hurst	8,216	40	—	81,040	72,896
D B Stirling	16,195	130	—	140,307	125,539

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 (the date the scheme was closed to future accrual) and excluding any future increases under the Rules of the Scheme.
- 2) Transfer values have been calculated in accordance with Section 93A of the Pension Schemes Act 1993 and have been calculated in accordance with the Occupational Pension Schemes (Transfer Value) Regulations 1996, on the basis agreed with the Trustees of the 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.

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) On death before retirement, a spouse's pension is payable of one-half of the member's preserved pension at leaving, revalued from leaving date 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 Pensions increase at statutory rates. Other pensions increase at 5% per annum or the increase in the Retail Price Index if less.
- e) From 1 January 2006, active employees were able to pay contributions to a defined contribution scheme set up by the Company in order to receive retirement benefits. The Company also contributes to this arrangement. Details of this arrangement and the value of any contributions paid to this arrangement are not included in the above disclosures.

The executive Directors are members of the Zotefoams Defined Contribution Alternative Pension Plan. Under a salary sacrifice agreement all contributions to this pension plan are paid by the Company and the contributions made by the Company in 2009 are shown in the table of Directors' emoluments.

Approval

The report was approved by the Board of Directors on 8 March 2010 and signed on its behalf by:

D A Campbell

Non-executive Director and Chairman of the Remuneration Committee
8 March 2010

Company number 2714645

Audit Committee Report

Summary of the role of the Audit Committee

The Audit Committee is appointed by the Board from the independent non-executive Directors of the Company. The Audit Committee's terms of reference include all matters indicated by the Disclosure and Transparency Rule 7.1 and 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 and when used monitoring and reviewing its effectiveness;
- 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 2009 were the independent non-executive Directors of the Company R H Lawson, D A Campbell and R J Clowes. 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 2009 the Audit Committee has:

- reviewed the financial statements in the 2008 and 2009 report and accounts and the interim report issued in August 2009. 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;
- undertaken an assessment of the need for an internal audit function; and
- following this assessment appointed an internal auditor and agreed a programme of work for 2009;
- received reports from the internal auditor on the work it had undertaken and management responses to proposals made in the internal audit report;
- 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;
- undertaken an evaluation of the independence and effectiveness of the external auditor; and
- reviewed its own effectiveness.

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.

Audit Committee Report continued

Internal audit function

The Audit Committee reviewed the need for an internal audit function. Although it concluded that given the size of the Group the creation of a separate internal audit function was not necessary it did appoint an external accountancy firm, Mazars, to carry out an internal audit review of some of the Company's financial controls in 2009. Mazars carries out no other work for the Group and the Audit Committee considers them independent.

The Audit Committee agreed with Mazars their terms of reference, reporting lines and their planned activity. It then reviewed the outcome of this work with Mazars and the findings and proposals made by Mazars with management.

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
8 March 2010

Corporate and 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 33.

Safety, Health and Environment (SHE)

The Board has separate policies in place relating to Safety, Health and Environment. In line with best practice, the Company is certified to accredited standards OHSAS 18001 on Health and Safety and ISO 14001 the 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 its quarterly reporting programme.

In 2009 the Finance Director was directly responsible to the Board for Safety, Health 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), and 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 training on environmental issues and safe working practices takes place. 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. There were no prosecutions, fines or enforcement action taken as a result of non-compliance with safety, health or environmental legislation.

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 used 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 accelerated the refurbishment and upgrade programme for the vessels involved. This programme was completed in 2009. All our high-pressure vessels in service now have been refurbished and upgraded so they no longer use the water-cooling mechanism.

In 2009 there were 2 reportable lost time accidents in the Group (2008: 8). Both were impact injuries with different causes. They have both been fully investigated and corrective actions implemented.

	2009	2008	2007
Reportable lost time accidents	2	8	7

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 2009 the Group had 13 internally recorded environmental incidents (2008: 4). Seven of these were noise or other complaints (2008: 3). All were investigated and actions taken. Two were minor chemical spills (2008: none) which were dealt with appropriately and had no significant environmental impact. Four were releases of nitrogen gas into the air from bursting disks which are an essential part of our statutory equipment safety regime (2008:1). 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 2009 the waste sent to landfill for our main site in Croydon was 432 tonnes, higher than 2008 (337 tonnes) reflecting our efforts to clean up this site under our lean manufacturing initiative.

Corporate and Social Responsibility Report continued

Environmental performance continued

Energy consumption is monitored and reviewed regularly during the year. There are continuing efforts across the site to improve energy efficiency, although in 2009 energy consumption per kg rose due to lower sales volumes and therefore a higher proportionate base load per kg produced. In October 2009 Zotefoams entered into a Climate Change Levy (CCL) agreement. This involves the Company meeting specific targets to reduce energy consumption. Providing Zotefoams meets the requirements of the CCL agreement it receives a rebate on its electricity bills and is also exempt from the forthcoming Carbon Reduction Commitment Scheme.

Croydon site	2009	2008	2007
Internally recorded environmental incidents	13	4	13
Waste sent to landfill (tonnes)	432	337	375
Water consumption (000's m ³)	57	92	67
Energy consumption (Kwhr/Kg)	13.8	13.2	13.2

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. This is achieved through formal and informal meetings. 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. Guidance on business ethics is included in the employee handbook and incorporated into an induction process which all employees 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 2006 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 2009 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. The terms of reference for these Committees are available on the Company's website www.zotefoams.com and in paper form, on request from the registered office of the Company.

Attendance details for 2009 by the Directors for meetings of the Board and these Committees are shown below:

Attendance at meetings	Formal Board meetings		Audit Committee meetings		Remuneration Committee meetings		Nominations Committee meetings	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
D A Campbell	8	8	4	4	2	2	1	1
R J Clowes	8	8	4	4	2	2	1	1
N G Howard	8	8	n/a	n/a	2	2	1	1
C G Hurst	8	8	n/a	n/a	n/a	n/a	n/a	n/a
R H Lawson	8	8	4	4	2	2	1	1
D B Stirling	8	8	n/a	n/a	n/a	n/a	n/a	n/a

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 Director and senior management team members in the Group.

Board balance and independence

The Board structure comprises, in addition to executive Directors, three independent non-executive Directors and a non-executive Chairman.

The Chairman, N G Howard, is also Chairman of the Nominations Committee and a member of the Remuneration Committee. N G Howard was independent on his appointment as Chairman. 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 and approved by the Board. The Nominations Committee comprises the Chairman N G Howard (who is Chairman of the Nominations Committee) and the independent non-executive Directors. N G Howard was independent on his appointment as Chairman.

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.

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 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 2010 two Directors will stand for re-election:

- D A Campbell;
- D B Stirling.

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

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 14 to 19. This also describes the financial position of the Company, its cash flows and liquidity position. In addition, note 21 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, borrowing facilities, and its exposure to credit risk and liquidity risk. As a consequence, the Directors believe that the Company is well placed to manage its business risks.

The Directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Relations with shareholders

The Company is always ready, where practicable, to enter into a dialogue with shareholders to promote mutual understanding of objectives. 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 is available to meet institutional shareholders. The Senior Independent Director (R H Lawson) and 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 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.

Internal control continued

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

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 IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. 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 judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs 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 adequate accounting records that are sufficient to show and explain the Parent Company's transactions and 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 2006. 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 complies 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.

The Directors of Zotefoams plc are detailed on page 20.

By order of the Board

C G Hurst
Finance Director

Independent Auditors' Report

to the members of Zotefoams plc

We have audited the financial statements of Zotefoams plc for the year ended 31 December 2009 set out on pages 38 to 65. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 36, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2009 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 34, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

M Sheppard (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

Crawley

8 March 2010

Consolidated Income Statement

for the year ended 31 December 2009

	Note	Pre-exceptional items 2009 £000	Exceptional items (see note 4) 2009 £000	Total 2009 £000	2008 £000
Revenue	2	31,816	—	31,816	34,781
Cost of sales		(21,941)	(312)	(22,253)	(24,658)
Gross profit		9,875	(312)	9,563	10,123
Distribution costs		(2,745)	(38)	(2,783)	(2,820)
Administrative expenses		(3,714)	(59)	(3,773)	(3,273)
Operating profit		3,416	(409)	3,007	4,030
Financial income	6	810	—	810	1,150
Finance costs	6	(1,168)	—	(1,168)	(1,222)
Share of profit/(loss) from associate		99	—	99	(27)
Profit/(loss) before tax		3,157	(409)	2,748	3,931
Taxation	7	(690)	106	(584)	(925)
Profit/(loss) for the year	3	2,467	(303)	2,164	3,006
Attributable to:					
Equity holders of the parent		2,467	(303)	2,164	3,006
Earnings per share					
Basic (p)	8			5.9	8.3
Diluted (p)	8			5.8	8.1

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009

	2009 £000	2008 £000
Profit for the year	2,164	3,006
Other comprehensive income		
Foreign exchange translation differences on investment in foreign subsidiary/associate	(1,251)	3,043
Effective portion of changes in fair value of cash flow hedges net of recycling	1,228	(1,079)
Actuarial losses on defined benefit schemes	(2,698)	(1,658)
Tax relating to components of other comprehensive income	411	766
Other comprehensive (expenditure)/income for the period, net of tax	(2,310)	1,072
Total comprehensive (expenditure)/income for the year	(146)	4,078
Attributable to equity holders of the parent	(146)	4,078

Company Statement of Comprehensive Income

for the year ended 31 December 2009

	2009 £000	2008 £000
Profit for the year	1,310	3,999
Other comprehensive income		
Effective portion of changes in fair value of cash flow hedges net of recycling	1,228	(1,079)
Actuarial losses on defined benefit schemes	(2,698)	(1,658)
Tax relating to components of other comprehensive income	411	766
Other comprehensive expenditure for the period, net of tax	(1,059)	(1,971)
Total comprehensive income for the year	251	2,028
Attributable to equity holders of the Company	251	2,028

Consolidated Statement of Financial Position

as at 31 December 2009

	Note	2009 £000	2008 £000
Non-current assets			
Property, plant and equipment	10	25,829	26,775
Intangible assets	11	75	121
Investment in associate	13	1,687	1,912
Deferred tax assets	19	249	239
Total non-current assets		27,840	29,047
Current assets			
Inventories	14	4,382	4,335
Trade and other receivables	15	7,729	8,408
Cash and cash equivalents	16	2,975	429
Total current assets		15,086	13,172
Total assets		42,926	42,219
Non-current liabilities			
Interest-bearing loans and borrowings	18	(2,134)	—
Employee benefits	23	(5,783)	(3,527)
Deferred tax liabilities	19	(1,377)	(1,969)
Total non-current liabilities		(9,294)	(5,496)
Current liabilities			
Interest-bearing loans and borrowings	18	(660)	(300)
Bank overdraft	16	(611)	(1,281)
Tax payable		(547)	(937)
Trade and other payables	17	(4,132)	(4,984)
Total current liabilities		(5,950)	(7,502)
Total liabilities		(15,244)	(12,998)
Total net assets		27,682	29,221
Equity			
Issued share capital	20	1,915	1,889
Own shares held		(95)	(69)
Share premium		13,941	13,941
Capital redemption reserve		15	15
Translation reserve		1,040	2,291
Hedging reserve		(36)	(1,264)
Retained earnings		10,902	12,418
Total equity attributable to the equity holders of the parent		27,682	29,221

These financial statements were approved by the Board of Directors on 8 March 2010 and signed on its behalf by:

N G Howard
Chairman

C G Hurst
Finance Director

Company number 2714645

Company Statement of Financial Position

as at 31 December 2009

	Note	2009 £000	2008 £000
Non-current assets			
Property, plant and equipment	10	21,000	20,722
Intangible assets	11	75	121
Investment in subsidiaries	12	7,888	8,384
Total non-current assets		28,963	29,227
Current assets			
Inventories	14	3,555	3,384
Trade and other receivables	15	7,969	7,701
Cash and cash equivalents	16	2,718	31
Total current assets		14,242	11,116
Total assets		43,205	40,343
Non-current liabilities			
Interest-bearing loans and borrowings	18	(2,134)	—
Employee benefits	23	(5,783)	(3,527)
Deferred tax liabilities	19	(1,377)	(1,969)
Total non-current liabilities		(9,294)	(5,496)
Current liabilities			
Interest-bearing loans and borrowings	18	(3,508)	(1,517)
Bank overdraft	16	(611)	(1,281)
Tax payable		(547)	(937)
Trade and other payables	17	(3,956)	(4,681)
Total current liabilities		(8,622)	(8,416)
Total liabilities		(17,916)	(13,912)
Total net assets		25,289	26,431
Equity			
Issued share capital	20	1,915	1,889
Own shares held		(95)	(69)
Share premium		13,941	13,941
Capital redemption reserve		15	15
Hedging reserve		(36)	(1,264)
Retained earnings		9,549	11,919
Total equity attributable to the equity holders of the Company		25,289	26,431

These financial statements were approved by the Board of Directors on 8 March 2010 and signed on its behalf by:

N G Howard
Chairman

C G Hurst
Finance Director

Company number 2714645

Consolidated Statement of Cash Flows

for the year ended 31 December 2009

	Note	2009 £000	2008 £000
Cash flows from operating activities			
Profit for the year		2,164	3,006
Adjustments for:			
Depreciation, amortisation and impairment		3,588	2,931
Loss on sale of plant and equipment		90	—
Financial income		(810)	(1,150)
Finance costs		1,168	1,222
Share of (income)/loss from associate		(99)	27
Equity-settled share-based payments		211	165
Taxation		584	925
Operating profit before changes in working capital and provisions		6,896	7,126
Decrease/(increase) in trade and other receivables		577	(596)
(Increase)/decrease in inventories		(152)	227
Increase/(decrease) in trade and other payables		435	(387)
Decrease in provisions and employee benefits		(715)	(600)
Cash generated from operations		7,041	5,770
Interest paid		(110)	(68)
Tax paid		(1,123)	(698)
Net cash from operating activities		5,808	5,004
Interest received		18	14
Acquisition of property, plant and equipment		(3,431)	(1,420)
Acquisition of licence		—	(150)
Investment in associate		—	(1,410)
Distribution from associate		104	15
Net cash used in investing activities		(3,309)	(2,951)
New borrowings		3,289	—
Repayment of borrowings		(795)	(400)
Dividends paid		(1,638)	(1,638)
Net cash used in financing activities		856	(2,038)
Net increase in cash and cash equivalents		3,355	15
Cash and cash equivalents at 1 January		(852)	(984)
Effect of exchange rate fluctuations on cash held		(139)	117
Cash and cash equivalents at 31 December	16	2,364	(852)

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

Company Statement of Cash Flows

for the year ended 31 December 2009

	Note	2009 £000	2008 £000
Cash flows from operating activities			
Profit for the year		1,310	3,999
Adjustments for:			
Depreciation, amortisation and impairment		2,939	2,492
Foreign exchange losses/(gains)		496	(1,196)
Loss on sale of plant and equipment		92	—
Financial income		(891)	(1,248)
Financial costs		1,200	1,201
Equity-settled share-based payments		211	165
Taxation		581	1,024
Operating profit before changes in working capital and provisions		5,938	6,437
Increase in trade and other receivables		(193)	(195)
Increase in inventories		(171)	(29)
Increase/(decrease) in trade and other payables		530	(426)
Decrease in provisions and employee benefits		(715)	(600)
Cash generated from operations		5,389	5,187
Interest paid		(142)	(47)
Tax paid		(1,110)	(696)
Net cash from operating activities		4,137	4,444
Interest received		99	110
Acquisition of property, plant and equipment		(3,358)	(1,400)
Acquisition of licence		—	(150)
Net cash used in investing activities		(3,259)	(1,440)
Increase in investment in subsidiary		—	(1,506)
Intercompany loan received		1,631	564
New borrowings		3,289	—
Repayment of borrowings		(795)	(400)
Dividends paid		(1,638)	(1,638)
Net cash used in financing activities		2,487	(2,980)
Net increase in cash and cash equivalents		3,365	24
Cash and cash equivalents at 1 January		(1,250)	(1,242)
Effect of exchange fluctuations on cash held		(8)	(32)
Cash and cash equivalents at 31 December	16	2,107	(1,250)

Consolidated Statement of Changes in Equity

for the year ended 31 December 2009

	Note	Share capital £000	Own shares held £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Hedging reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2008		1,820	—	13,941	15	(752)	(185)	11,827	26,666
Shares issued		69	(69)	—	—	—	—	—	—
Total recognised income and expense		—	—	—	—	3,043	(1,079)	2,114	4,078
Equity-settled share-based payment transactions net of tax		—	—	—	—	—	—	115	115
Dividends	8	—	—	—	—	—	—	(1,638)	(1,638)
Balance at 31 December 2008		1,889	(69)	13,941	15	2,291	(1,264)	12,418	29,221
Balance at 1 January 2009		1,889	(69)	13,941	15	2,291	(1,264)	12,418	29,221
Shares issued		26	(26)	—	—	—	—	—	—
Total recognised income and expense		—	—	—	—	(1,251)	1,228	(123)	(146)
Equity-settled share-based payment transactions net of tax		—	—	—	—	—	—	245	245
Dividends	8	—	—	—	—	—	—	(1,638)	(1,638)
Balance at 31 December 2009		1,915	(95)	13,941	15	1,040	(36)	10,902	27,682

The aggregate current and deferred tax relating to items that are credited to equity is £452,000 (2008: a credit of £685,000).

Company Statement of Changes in Equity

for the year ended 31 December 2009

	Note	Share capital £000	Own shares held £000	Share premium £000	Capital redemption reserve £000	Hedging reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2008		1,820	—	13,941	15	(185)	10,335	25,926
Shares issued		69	(69)	—	—	—	—	—
Total recognised income and expense		—	—	—	—	(1,079)	3,107	2,028
Equity-settled share-based payment transactions net of tax		—	—	—	—	—	115	115
Dividends	8	—	—	—	—	—	(1,638)	(1,638)
Balance at 31 December 2008		1,889	(69)	13,941	15	(1,264)	11,919	26,431
Balance at 1 January 2009		1,889	(69)	13,941	15	(1,264)	11,919	26,431
Shares issued		26	(26)	—	—	—	—	—
Total recognised income and expense		—	—	—	—	1,228	(977)	251
Equity-settled share-based payment transactions net of tax		—	—	—	—	—	245	245
Dividends	8	—	—	—	—	—	(1,638)	(1,638)
Balance at 31 December 2009		1,915	(95)	13,941	15	(36)	9,549	25,289

The aggregate current and deferred tax relating to items that are credited to equity is £452,000 (2008: a credit of £685,000).

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 408 of the Companies Act 2006 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 8 March 2010.

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 26.

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) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total recognised income and expense and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

iii) 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 the income statement. 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.

Notes to the Financial Statements continued

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.

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
Fixtures and fittings	3–5 years

g) Intangible assets

i) 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.

ii) Intellectual Property

Intellectual property is measured initially at purchase cost and is amortised on a straight-line basis over its estimated useful life.

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.

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.

1. Accounting policies continued

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 Comprehensive Income.

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 since 1 January 2006 are valued using a Black-Scholes model. Fair value measurements take into account the terms and conditions upon which the options were granted.

iv) Own shares held by Employee Benefit Trust

Transactions of the Company-sponsored EBT are treated as being those of the Company and are therefore reflected in the Parent Company and Group financial statements. In particular, the trust's purchases and sales of shares in the Company are debited and credited directly to equity.

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.

Notes to the Financial Statements continued

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) Changes in accounting policies

i) Determination and presentation of operating segments

As of 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the MD, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 Operating Segments. Previously operating segments were determined and presented in accordance with IAS 14 Segment Reporting. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the MD include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

ii) Presentation of financial statements

The Group applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Group presents in the Consolidated Statement of Changes in Equity all owner changes in equity, whereas all non-owner changes in equity are presented in the Consolidated Statement of Comprehensive Income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

t) Investments in equity securities

Investments in subsidiaries are stated at cost less provision for impairment.

u) Adopted IFRS not yet applied

A number of new standards, amendments to existing standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements.

IFRS 3 (2008) Business combinations will become mandatory for the Group's 2010 financial statements and will impact any future acquisitions. There are no other standards not yet adopted which are expected to have a significant impact on the Group's 2010 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. There are no transactions between reportable segments.

- 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 microZOTE™.

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

	Polyolefins		HPP		Consolidated	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Revenue from external customers	30,174	33,981	1,642	800	31,816	34,781
Pre-exceptional operating profit/(loss)	3,933	4,567	(517)	(537)	3,416	4,030
Exceptional items					(409)	—
Net financing costs					(358)	(72)
Profit/(loss) from associate					99	(27)
Taxation					(584)	(925)
Profit for the year					2,164	3,006
Segment assets	37,740	39,929	4,937	2,051	42,677	41,980
Unallocated assets	—	—	—	—	249	239
Total assets					42,926	42,219
Segment liabilities	(12,884)	(10,088)	(436)	(5)	(13,320)	(10,093)
Unallocated liabilities	—	—	—	—	(1,924)	(2,905)
Total liabilities					(15,244)	(12,998)
Depreciation	3,437	2,850	105	52	3,542	2,902
Capital expenditure	1,922	1,394	1,509	26	3,431	1,420

Geographical segments

Polyolefins and HPP are managed on a worldwide basis but operate from UK and US locations. In presenting information on basis of geographical segments, segmental revenue is based on the geographical location of customers. Segment assets are based on the geographical location of assets.

	UK and Eire £000	Europe £000	North America £000	Rest of the world £000	Total £000
For the year ended 31 December 2009					
Revenue from external customers	6,503	15,428	8,218	1,667	31,816
Segment assets	33,793	—	9,133	—	42,926
Capital expenditure	3,359	—	72	—	3,431
For the year ended 31 December 2008					
Revenue from external customers	8,369	17,374	7,659	1,379	34,781
Segment assets	30,812	—	11,407	—	42,219
Capital expenditure	1,400	—	20	—	1,420

Major customer

Revenues from one customer of the Group's polyolefins segment represents approximately £4,186k (2008: £5,154k) of the Group's total revenues.

3. Expenses and auditors' remuneration

	2009 £000	2008 £000
Included in profit for the year are:		
Research and development costs expensed	776	731
Net exchange losses	759	185
Auditors' remuneration:		
Group		
– audit of these financial statements	90	95
– fees receivable by the auditors and their associates in respect of other services:		
– other services pursuant with legislation	19	24
– other services relating to taxation	40	13
– other services relating to acquisition of associate	—	20
	149	152

Notes to the Financial Statements continued

4. Exceptional items

In 2009 the Company classified the following as exceptional:

Restructuring costs

Relating to termination payments, advisory and other associated costs for the termination of 33 employees in the first half of 2009.

VAT

Adjustment to exceptional item in prior year

	2009 £000	2008 £000
Restructuring costs	(439)	—
VAT adjustment	30	—
Exceptional items before taxation	(409)	—
Tax on above	106	—
Exceptional items after taxation	(303)	—

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	
	2009	2008	2009	2008
Production	111	134	105	125
Maintenance	17	18	15	15
Distribution and marketing	43	41	34	31
Administration and technical	63	63	56	55
	234	256	210	226

The aggregate payroll costs of these persons were as follows:

	Group			
	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Wages and salaries	6,793	7,556	5,789	6,710
Social security costs	691	787	629	702
Share-based payments	260	165	260	165
Other pension costs	540	599	494	556
	8,284	9,107	7,172	8,133

The costs shown above exclude items classified as exceptional items.

Details of individual Directors' emoluments, pension costs and share options are dealt with on pages 24 to 28 in the Directors' Remuneration Report.

6. Finance income and costs

Financial income

	2009 £000	2008 £000
Interest on bank deposits	18	12
Expected return on assets of defined benefit pension fund	792	1,138
	810	1,150

Finance costs

	2009 £000	2008 £000
On bank loans and overdrafts	103	80
Interest on defined benefit pension obligation	1,065	1,142
	1,168	1,222

7. Taxation

	Note	2009 £000	2008 £000
UK corporation tax		741	1,135
Overseas taxation		13	2
Adjustment to prior year UK tax charge		(20)	(66)
Current taxation		734	1,071
Deferred taxation	19	(150)	(146)
Total tax charge		584	925

Factors affecting the tax charge

The tax charge for the year is lower (2008: lower) than the standard rate of corporation tax in the UK of 28.0% (2008: 28.5%). The differences are explained below:

	2009 £000	2008 £000
Tax reconciliation		
Profit before tax	2,748	3,931
Tax at 28.0% (2008: 28.5%)	769	1,120
Effects of:		
Research and development tax credits and other allowances less expenses not deductible for tax purposes	(69)	(7)
Partial recognition of US tax losses	(10)	(60)
Lower tax rates on overseas earnings	(86)	(62)
Adjustments to UK corporation tax charge in respect of previous periods	(20)	(66)
Total tax charge	584	925

8. Dividends and earnings per share

	2009 £000	2008 £000
Final dividend prior year of 3.0p (2007: 3.0p) net per 5.0p ordinary share	1,091	1,091
Interim dividend of 1.5p (2008: 1.5p) net per 5.0p ordinary share	547	547
Dividends paid during the year	1,638	1,638

The proposed final dividend for the year ended 31 December 2009 of 3.0p per share (2008: 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 £2,164,000 (2008: £3,006,000) by the weighted average number of shares in issue during the year excluding own shares held by employee trusts which are administered by independent trustees. The number of shares held in the trust at 31 December 2009 was 1,891,147 (2008: 1,378,098). Distribution of shares from the trust is at the discretion of the trustees. Diluted earnings per ordinary share adjusts for the potential dilutive effect of share option schemes in accordance with IAS 33.

	2009	2008
Average number of ordinary shares issued	36,402,886	36,402,608
Deemed issued for no consideration	1,001,188	559,791
Diluted number of ordinary shares issued	37,404,074	36,962,399

Shares deemed issued for no consideration have been calculated based on the potential dilutive effect of the Executive Share Option Scheme, options granted under the HMRC Approved Share Option Scheme, Long-term Incentive Plans, the 2009 Share Bonus Plan and the Deferred Bonus Plan:

Date from which exercisable	Exercise price	Number of shares under option	
		2009	2008
7 April 2007	72.5p	152,834	152,834
22 December 2008	77.0p	684,213	684,213
11 March 2010	nil	217,775	—
10 May 2010	nil	—	306,959
20 March 2011	nil	230,304	233,283
12 August 2011	106.7p	253,044	267,911
16 March 2012	nil	516,387	—
11 March 2013	nil	30,165	—
		2,084,722	1,645,200

The average fair value of one ordinary share during the year was considered to be 67.9p (2008: 89.9p).

Notes to the Financial Statements continued

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 408 of the Companies Act 2006. The Parent Company profit after tax for the financial year is £1,310,000 (2008: £3,999,000).

10. Property, plant and equipment

a) Group

	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Under construction £000	Total £000
Cost					
Balance at 1 January 2008	14,133	40,796	1,982	2,174	59,085
Acquisitions	—	318	176	1,035	1,529
Disposals	—	(2,746)	—	—	(2,746)
Reclassifications	—	2,200	50	(2,250)	—
Effect of movement in foreign exchange	1,331	931	60	—	2,322
Balance at 31 December 2008	15,464	41,499	2,268	959	60,190
Balance at 1 January 2009	15,464	41,499	2,268	959	60,190
Acquisitions	—	292	143	2,900	3,335
Disposals	—	(1,211)	(4)	—	(1,215)
Reclassifications	—	2,129	—	(2,129)	—
Effect of movement in foreign exchange	(535)	(536)	(24)	—	(1,095)
Balance at 31 December 2009	14,929	42,173	2,383	1,730	61,215
Depreciation and impairment					
Balance at 1 January 2008	4,681	26,164	1,804	—	32,649
Depreciation charge for the year	574	2,082	74	172	2,902
Disposals	—	(2,746)	—	—	(2,746)
Reclassifications	—	162	10	(172)	—
Effect of movement in foreign exchange	353	213	44	—	610
Balance at 31 December 2008	5,608	25,875	1,932	—	33,415
Balance at 1 January 2009	5,608	25,875	1,932	—	33,415
Depreciation charge for the year	601	2,795	108	38	3,542
Disposals	—	(1,122)	(3)	—	(1,125)
Reclassifications	—	38	—	(38)	—
Effect of movement in foreign exchange	(159)	(268)	(19)	—	(446)
Balance at 31 December 2009	6,050	27,318	2,018	—	35,386
Net book value					
At 1 January 2008	9,452	14,632	178	2,174	26,436
At 31 December 2008 and 1 January 2009	9,856	15,624	336	959	26,775
At 31 December 2009	8,879	14,855	365	1,730	25,829

Included in plant and machinery for both the Company and the Group are assets of £2,805,000 (2008: £300,000) 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 £1,730,000 (2008: £959,000) for the Group.

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
Cost					
Balance at 1 January 2008	10,590	36,884	1,838	2,174	51,486
Acquisitions	—	310	164	1,035	1,509
Disposals	—	(2,746)	—	—	(2,746)
Reclassifications	—	2,200	50	(2,250)	—
Balance at 31 December 2008	10,590	36,648	2,052	959	50,249
Balance at 1 January 2009	10,590	36,648	2,052	959	50,249
Acquisitions	—	246	117	2,900	3,263
Disposals	—	(1,211)	(3)	—	(1,214)
Reclassifications	—	2,129	—	(2,129)	—
Balance at 31 December 2009	10,590	37,812	2,166	1,730	52,298
Depreciation and impairment					
Balance at 1 January 2008	3,793	24,319	1,698	—	29,810
Depreciation charge for the year	420	1,814	57	172	2,463
Disposals	—	(2,746)	—	—	(2,746)
Reclassifications	—	162	10	(172)	—
Balance at 31 December 2008	4,213	23,549	1,765	—	29,527
Balance at 1 January 2009	4,213	23,549	1,765	—	29,527
Depreciation charge for the year	421	2,346	88	38	2,893
Disposals	—	(1,120)	(2)	—	(1,122)
Reclassifications	—	38	—	(38)	—
Balance at 31 December 2009	4,634	24,813	1,851	—	31,298
Net book value					
At 1 January 2008	6,797	12,565	140	2,174	21,676
At 31 December 2008 and 1 January 2009	6,377	13,099	287	959	20,722
At 31 December 2009	5,956	12,999	315	1,730	21,000

11. Intangible assets**Group and Company**

	MuCell® Licence £000
Cost	
Balance at 1 January 2009	150
Balance at 31 December 2009	150
Amortisation	
Balance at 1 January 2009	(29)
Charge for the year	(46)
Balance at 31 December 2009	(75)
Net book value	
At 1 January 2009	121
At 31 December 2009	75

Notes to the Financial Statements continued

12. Investments in subsidiaries

	2009 £000	2008 £000
Shares in Group undertakings – at cost	7,157	7,157
Provision against the value of investment in subsidiary to reflect the value of the underlying net assets	(3,294)	(3,294)
Loan to Group undertakings	4,025	4,521
	7,888	8,384

The investments consist of the entire ordinary share capital of Zotefoams International Limited and a \$6,500,000 loan (2008: \$6,500,000) to Zotefoams Inc.

The movements in investments during the year were due to 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; and
- Zotefoams Inc.

Zotefoams International Limited is incorporated in Great Britain, and Zotefoams Inc. is incorporated in the USA.

The principal activities of the subsidiary undertakings are as follows: Zotefoams Inc. purchases, manufactures and distributes cross-linked block foams and Zotefoams International Limited is a holding company. In the opinion of the Directors the investments in the Company's subsidiary undertakings are worth at least the amount at which they are stated in the Balance Sheet.

13. Investment in associates

Zotefoams Inc. owns 30% of the units in MuCell Extrusion LLC, whose principal place of business is Massachusetts, USA, with an option to increase its unit holding to 100%. The earliest this option can be exercised is July 2010 but, depending on certain conditions it may be exercised as late as June 2011.

All the share capital of MuCell Extrusion LLC is denominated in units of the same class.

Summary aggregated financial information on associates – 100 per cent:

At 31 December:	2009 £000	2008 £000
Goodwill	2,798	3,159
Intangible assets	2,129	2,642
Tangible assets	31	27
Current assets	288	243
Cash	268	173
Total assets	5,514	6,244
Total liabilities	(121)	(127)
Net assets	5,393	6,117

For the period ended 31 December:	2009 £000	2008 £000
Revenue	1,651	315
Amortisation	(217)	(90)
Gain/(loss) after amortisation	330	(90)

MuCell Extrusion LLC was created on 1 July 2008 and therefore the above 2008 results reflect six months trading from 1 July 2008 to 31 December 2008.

The reporting date for MuCell Extrusion LLC is 30 June. The financial information included within these financial statements is based on management information as at 31 December.

Reconciliation of movement in MuCell valuation:

	2009 £000	2008 £000
Initial cost of investment including expenses		1,410
Cost brought forward as at 1 January	1,912	–
Share of result for period	99	(27)
Distribution received	(104)	(15)
Effect of movement in foreign exchange	(220)	544
Investment in associate as at 31 December	1,687	1,912

14. Inventories

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Raw materials and consumables	1,775	1,754	1,612	1,695
Work in progress	1,021	994	998	788
Finished goods	1,586	1,587	945	901
	4,382	4,335	3,555	3,384

The carrying amount of inventories subject to retention of title clauses is £293,000 (2008: £122,000).

In 2009 the value of inventory recognised by the Group as an expense in cost of goods sold was £17,499,000 (2008: £20,735,000).

15. Trade and other receivables

	Note	Group		Company	
		2009 £000	2008 £000	2009 £000	2008 £000
Amounts falling due within one year:					
Trade receivables		7,196	8,084	5,699	6,506
Fair value derivatives	21	75	—	75	—
Amounts owed by Group undertakings	25	—	—	1,752	884
Other receivables		200	134	200	134
Prepayments and accrued income		258	190	243	177
		7,729	8,408	7,969	7,701
Trade receivables are shown net of:					
impairment losses		155	124	116	94

16. Cash and cash equivalents/bank overdrafts

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Cash and cash equivalents per balance sheet	2,975	429	2,718	31
Bank overdrafts	(611)	(1,281)	(611)	(1,281)
Cash and equivalents per cash flow statements	2,364	(852)	2,107	(1,250)

17. Trade and other payables

	Note	Group		Company	
		2009 £000	2008 £000	2009 £000	2008 £000
Trade payables		1,204	1,537	1,147	1,500
Other creditors including taxation and social security:					
Other taxation and social security		191	259	190	206
Fair value derivatives	21	111	1,264	111	1,264
Amounts owed to Group undertakings	25	—	—	4	—
Other payables		432	594	367	471
Accruals and deferred income		2,194	1,330	2,137	1,240
		4,132	4,984	3,956	4,681

18. Interest-bearing loans and borrowings

	Note	Group		Company	
		2009 £000	2008 £000	2009 £000	2008 £000
Bank Loans		660	300	660	300
Amounts due to Group undertakings	25	—	—	2,848	1,217
Amounts falling due within one year		660	300	3,508	1,517
Bank loans		2,134	—	2,134	—
Amounts falling due in more than one year		2,134	—	2,134	—
	21	2,794	300	5,642	1,517

Notes to the Financial Statements continued

19. 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	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Property, plant and equipment	—	—	2,285	2,432	2,285	2,432
Rolled-over gain	—	—	902	902	902	902
Inventories	(92)	(92)	—	—	(92)	(92)
Financial instruments	(10)	(354)	—	—	(10)	(354)
Employee benefits	(1,800)	(1,011)	—	—	(1,800)	(1,011)
Tax value of recognised losses carried forward	(157)	(147)	—	—	(157)	(147)
Tax (assets)/liabilities	(2,059)	(1,604)	3,187	3,334	1,128	1,730
Set off tax	1,810	1,365	(1,810)	(1,365)	—	—
Net tax (assets)/liabilities	(249)	(239)	1,377	1,969	1,128	1,730

At 31 December 2009 a deductible temporary difference of £1,635,000 (2008: £1,578,000) 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 \$5.3m 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 £157,000 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 2009 £000	Recognised in income £000	Recognised in equity £000	Balance 31 December 2009 £000
Property, plant and equipment	2,432	(147)	—	2,285
Rolled-over gain	902	—	—	902
Inventories	(92)	—	—	(92)
Financial instruments	(354)	—	344	(10)
Employee benefits	(1,011)	7	(796)	(1,800)
Tax value of recognised losses carried forward	(147)	(10)	—	(157)
	1,730	(150)	(452)	1,128

Movement in deferred tax during the prior year

	Balance 1 January 2008 £000	Recognised in income £000	Recognised in equity £000	Balance 31 December 2008 £000
Property, plant and equipment	2,603	(171)	—	2,432
Rolled-over gain	902	—	—	902
Inventories	(51)	(41)	—	(92)
Financial instruments	(52)	—	(302)	(354)
Employee benefits	(754)	126	(383)	(1,011)
Tax value of recognised losses carried forward	(87)	(60)	—	(147)
	2,561	(146)	(685)	1,730

19. 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	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Property, plant and equipment	—	—	2,285	2,432	2,285	2,432
Rolled-over gain	—	—	902	902	902	902
Financial instruments	(10)	(354)	—	—	(10)	(354)
Employee benefits	(1,800)	(1,011)	—	—	(1,800)	(1,011)
Tax (assets)/liabilities	(1,810)	(1,365)	3,187	3,334	1,377	1,969
Set off tax	1,810	1,365	(1,810)	(1,365)	—	—
Net tax liabilities	—	—	1,377	1,969	1,377	1,969

Movement in deferred tax during the year

	Balance 1 January 2009 £000	Recognised in income £000	Recognised in equity £000	Balance 31 December 2009 £000
Property, plant and equipment	2,432	(147)	—	2,285
Rolled-over gain	902	—	—	902
Financial instruments	(354)	—	344	(10)
Employee benefits	(1,011)	7	(796)	(1,800)
	1,969	(140)	(452)	1,377

Movement in deferred tax during the prior year

	Balance 1 January 2008 £000	Recognised in income £000	Recognised in equity £000	Balance 31 December 2008 £000
Property, plant and equipment	2,603	(171)	—	2,432
Rolled-over gain	902	—	—	902
Financial instruments	(52)	—	(302)	(354)
Employee benefits	(754)	126	(383)	(1,011)
	2,699	(45)	(685)	1,969

20. Share capital

	2009 £	2008 £
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: 38,297,093 (2008: 37,780,706) ordinary shares of 5.0p each	1,914,855	1,889,035

Details of share options are provided in note 24 to the accounts on page 63.

During the year the Company issued 516,387 ordinary shares to the Employee Benefit Trust.

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.

Notes to the Financial Statements continued

21. Financial instruments

Policy

The Group's principal financial instruments include bank loans, cash and short-term deposits the main purpose of which is to raise finance for the Group's operations. Foreign exchange derivatives are used to help manage the Group's currency exposure. It is and has been throughout the year 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 currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained fundamentally unchanged throughout the year.

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 2009 and 2008, the Group had credit insurance to mitigate this risk. However, the uninsured exposure as at 31 December 2009 was £1,285,000 (2008: £1,377,000) 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.

Trade receivables can be analysed as follows:

	2009 £000	Group 2008 £000
Amounts neither past due or impaired	5,672	6,625
Amounts past due but not impaired		
Less than 60 days	1,200	1,459
More than 60 days	—	—
Total past due but not impaired	1,200	1,459
Amounts impaired	479	126
Impairment allowance	(155)	(126)
Carrying amount of impaired receivables	324	—
Trade receivables net of allowances	7,196	8,084

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:

	2009				2008			
	Effective interest rate	Fixed rates £000	Variable rates £000	Total £000	Effective interest rate	Fixed rates £000	Variable rates £000	Total £000
Sterling	2%	—	3,405	3,405	4%	—	1,581	1,581
			3,405	3,405		—	1,581	1,581

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 18 on page 55. The Group has a short-term facility of £4.9m which is freely transferable and convertible into sterling. This facility is repayable on demand and is utilised by Zotefoams plc and its subsidiary undertakings under a cross-guarantee structure.

In January 2009 Zotefoams plc borrowed £3.3m under a five year mortgage, repayable in equal quarterly instalments. This facility is secured over specific plant assets. At 31 December 2009 £2.8m of this mortgage was outstanding and £0.5m had been repaid.

Cash flow forecasts are produced to monitor the expected cashflow requirements of the Group against the available facilities.

21. Financial instruments continued**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:

	2009		2008	
	Average	Closing	Average	Closing
Euro/sterling	1.12	1.13	1.25	1.03
US dollar/sterling	1.57	1.61	1.84	1.44

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 2009 these forward currency contracts covered approximately two-thirds of the estimated net cash foreign exchange exposure for the next nine months. Further details are shown below in the paragraph on Sensitivity analysis.

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 2009 was a net liability of £36,000 (2008: net liability of £1,264,000) comprising assets of £75,000 (2008: nil) and liabilities of £111,000 (2008: £1,264,000) that were recognised in fair value derivatives in 2009.

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).

The maturity profile of the forward contracts as at 31 December is as follows:

	Group 2009			Group 2008		
	Foreign currency 000	Contract value £000	Fair value £000	Foreign currency 000	Contract value £000	Fair value £000
Sell EUR	€5,000	4,411	4,454	€4,700	3,835	4,492
Sell USD	\$4,700	2,911	2,905	\$5,100	2,893	3,500

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 2009 it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before tax by approximately £28,000 (2008: £16,000).

At 31 December 2009 it is estimated that an increase of one percentage point in the value of sterling against the euro and US dollar would decrease the Group's profit before tax by approximately £85,000 (2008: £106,000) before forward exchange contracts and £39,000 (2008: £60,000) after forward exchange contracts are included for the euro and £58,000 (2008: £69,000) for the US dollar before forward exchange contracts and £28,000 (2008: £33,000) after forward exchange contracts are included.

The Group has significant undertakings in the USA whose revenue and expenses are denominated in US dollars. It also makes a significant proportion of its sales to European customers and these revenues are predominantly in euros. It was the Group's policy in 2009 to hedge the foreign currency cash flows of invoiced sales net of expected foreign currency expenditure. Hedging is achieved by the use of foreign currency contracts expiring in the month of expected cash flow.

Notes to the Financial Statements continued

21. Financial instruments continued

Fair values

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

	2009		2008	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Trade and other receivables	7,654	7,654	8,408	8,408
Cash and cash equivalents	2,364	2,364	(852)	(852)
Forward exchange contracts				
– assets	75	75	–	–
– liabilities	(111)	(111)	(1,264)	(1,264)
Secured bank loans	(2,794)	(2,805)	(300)	(300)
Trade and other payables	(4,021)	(4,021)	(3,720)	(3,720)

Estimation of fair values

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

a) Derivatives

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

b) Interest-bearing loans and borrowings and trade and other receivables/payables

Carrying amounts equals the fair value less loan arrangement fee of £11k (2008: nil).

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital which the Group defines as profit before tax divided by average net assets. The Board of Directors also monitors the level of dividends paid to ordinary shareholders.

22. Commitments

	2009 £000	2008 £000
Capital contracts at the end of the financial year for which no provision has been made	396	927
The Group has non-cancellable operating lease rentals, which are payable as follows:		
– within one year	72	70
– between two and five years	108	174

During the year ended 31 December 2009 £87,000 was recognised as an expense in the Income Statement in respect of operating leases (2008: £67,000).

The above amounts apply to both the Company and the Group.

23. 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 were £55,000 per month, a rate agreed with the Company and the Trustees following the triennial review in April 2008 to apply from January 2009 until June 2016.

The Company has opted to recognise all actuarial gains and losses immediately in Other Comprehensive Income. An actuarial valuation of the scheme was carried out as at 5 April 2008 and the results have been updated to 31 December 2009 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007
Discount rate	5.70%	6.30%	5.90%
Expected return on plan assets	6.72%	5.76%	6.62%
Rate of salary increase	n/a	n/a	n/a
Rate of increase to pensions in payment	3.90%	3.00%	3.30%
Rate of inflation	3.70%	3.10%	3.40%
Mortality assumption	PCA00 MC	PCA00 MC	PA92 MC
Life expectancy from age 65 of current male pensioners	21.7 years	21.6 years	22.5 years
Commutation assumption	75% of members take maximum cash	75% of members take maximum cash	No allowance

23. Employee benefits continued

The mortality tables used above are those published by the Institute and Faculty of Actuaries, with allowance for improvements in member longevity in line with "Medium Cohort" projections, based on members' year of birth. These adjusted rates suggest that a man aged 65 retiring at 31 December 2009 could expect to live, on average, until age 87. A 5% change in life expectancy from the age of 65 would increase/decrease the pension scheme's IAS 19 liability by approximately £0.6m (£0.4m after deferred tax), all other things being equal.

The overall expected return on assets assumption of 6.72% as at 31 December 2009 has been derived by calculating the weighted average of the expected rate of return for each asset class. The following approach has been used to determine the expected rate of return for each asset class:

- Equities – allowance for an additional return of 3.25% above that available on UK government securities;
- Fixed interest securities – current market yields
- Cash – based on the Bank of England base rate.

Present value of scheme assets

	Year ended 31 December 2009		Year ended 31 December 2008		Year ended 31 December 2007	
	Long-term rate of return expected	Market value £000	Long-term rate of return expected	Market value £000	Long-term rate of return expected	Market value £000
Equities	7.8%	12,069	7.0%	9,298	7.1%	13,458
Bonds	4.5%	3,443	3.8%	3,154	4.6%	2,431
Other	0.5%	750	2.0%	1,417	5.5%	1,353
Insured pensioners		166		—		—
		16,428		13,869		17,242

Present value of defined obligation:

Funded plans	22,211	17,396
Total	22,211	17,396
Deficit in the scheme	(5,783)	(3,527)
Related deferred tax asset	1,619	988
Net pension liability	(4,164)	(2,539)

Reconciliation of opening and closing balances of the present value of the defined benefit obligation:

Benefit obligation at beginning of year	17,396	19,707
Interest cost	1,065	1,142
Actuarial losses/(gains)	4,538	(2,752)
Benefits paid	(983)	(701)
Past service costs	29	—
Inclusion of reserve for insured pensioners as at 31 December	166	—
Benefit obligation at end of year	22,211	17,396

Reconciliation of opening and closing balances of the fair value of plan assets:

Fair value of plan assets at beginning of year	13,869	17,242
Expected return on plan assets	792	1,138
Actuarial gain/(loss)	1,840	(4,410)
Contributions by employer	744	600
Benefits paid	(983)	(701)
Inclusion of reserve for insured pensioners as at 31 December	166	—
Fair value of plan assets at end of year	16,428	13,869

The amounts recognised in the Income Statement are:

Interest on obligation	1,065	1,142
Expected return on plan assets	(792)	(1,138)
Past service cost	29	—
Total expense	302	4

Notes to the Financial Statements continued

23. Employee benefits continued

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

	Group and Company	
	2009 £000	2008 £000
Cost of sales	29	—
Financial income	(792)	(1,138)
Finance costs	1,065	1,142
	302	4

Actuarial (losses)/gains shown in Other Comprehensive Income since 1 January 2005:

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Balance as at 1 January	131	1,789	648	222	264
Actuarial (losses)/gains	(2,698)	(1,658)	1,141	426	(42)
Balance as at 31 December	(2,567)	131	1,789	648	222

History of scheme assets, obligations and experience adjustments

	As at 31 December 2009 £000	As at 31 December 2008 £000	As at 31 December 2007 £000	As at 31 December 2006 £000	As at 31 December 2005 £000
Present value of defined benefit obligation	22,211	17,396	19,707	20,101	19,479
Fair value of scheme assets	16,428	13,869	17,242	15,861	14,259
Deficit in the scheme	(5,783)	(3,527)	(2,465)	(4,240)	(5,220)
Experience adjustments arising on scheme liabilities	4,538	(2,752)	(875)	233	1,621
Experience item as a percentage of scheme liabilities	20%	(16)%	(4)%	1%	8%
Experience adjustments arising on scheme assets	1,840	(4,410)	266	659	1,579
Experience item as a percentage of scheme assets	11%	(32)%	2%	4%	11%

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 2009 were £450,000 (2008: £505,000).

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 2009 were £80,000 (2008: £51,000).

For US based employees Zotefoams Inc. operates a 401(k) plan. The contributions paid by Zotefoams Inc. in 2009 were \$73,000 (2008: \$80,000).

24. Share-based payments

The Company has share option schemes that entitle 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 day before or on the three dealing days before the option is granted. 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.

In 2007 the Company introduced a LTIP scheme for senior management personnel. Shares were awarded in the Company and vest after three years to the extent performance conditions are met. Awards are forfeited if the employee leaves the Group before the award vests.

In 2007 the Company also introduced a deferred bonus plan. Executive bonuses over 40% of salary are held as deferred shares for three years. Awards are forfeited if the employee leaves the Group before the award vests.

In 2009 the Company replaced the Executive Bonus Scheme with a share-based bonus plan. Shares will be awarded in March 2010 based on performance against set objectives.

Details of the vesting conditions for the share, share option and LTIP awards are given in the Directors' Remuneration Report on page 27.

Details of the options outstanding during the year are as follows:

	2009		2008	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the period	1,104,958	83.6	1,179,154	76.4
Forfeited during the period	(7,639)	106.7	(355,356)	78.1
Cancelled during the period	(7,228)	106.7	Nil	—
Exercised during the period	nil	—	Nil	—
Granted during the period	nil	—	281,160	106.7
Outstanding at the end of the period	1,090,091	83.3	1,104,958	83.6
Exercisable at the end of the period	837,047	76.2	837,856	76.2

The options outstanding at 31 December 2009 have an exercise price of between 72.5p and 106.7p and a weighted contractual life of six 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 measured is based on a Black-Scholes model. The contractual life of the option (ten years) is used as an input into this model. No allowance is made for early leavers.

Details of the LTIP awards outstanding during the year are as follows:

	2009		2008	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the period	505,610	—	306,959	—
Granted during the period	516,387	—	198,651	—
Lapsed during the period	(306,959)	—	—	—
Outstanding at the end of the period	715,038	—	505,610	—
Exercisable at the end of the period	—	—	—	—

Details of the Deferred Bonus Plan awards outstanding during the year are as follows:

	2009		2008	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the period	34,632	—	—	—
Exercised during the period	(2,979)	—	—	—
Granted during the period	30,165	—	34,632	—
Outstanding at the end of the period	61,818	—	34,632	—
Exercisable at the end of the period	—	—	—	—

Notes to the Financial Statements continued

24. Share-based payments continued

Details of the 2009 Share Bonus Plan awards outstanding at the end of the year are as follows:

	2009		2008	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the period	—	—	—	—
Granted during the period	217,775	—	—	—
Outstanding at the end of the period	217,775	—	—	—
Exercisable at the end of the period	—	—	—	—

Fair value of share options and assumptions

The expected volatility is based on historic volatility since 1995.

	10 May 2007	20 March 2008	12 August 2008	16 March 2009	7 May 2009
Share price (p)	127.5	98.7	106.7	46.0	60.5
Exercise price (p)	nil	nil	106.7	nil	nil
Expected volatility	30%	30%	30%	30%	30%
Option life	Five years	Five years	Five years	Five years	Five years
Expected dividends (p) (assumed to be increasing at 2.5% p.a.)	nil	nil	4.5	nil	nil
Risk-free interest rate (based on national government bonds)	4.8%	4.7%	4.6%	4.8%	4.8%
Fair value at grant date (p)	127.5	98.7	23.3	46.0	60.5

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 LTIP awards are granted under a service condition and a performance condition, part of which is a market condition.

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

	Group and Company	
	2009 £000	2008 £000
Within administrative expenses	260	165
Element of the above relating to Directors of Zotefoams plc	128	87

25. Related parties

Directors

The Directors of the Company as at 31 December 2009 and their immediate relatives control 0.8% of the voting shares of the Company. Details of Directors' pay and remuneration are given in the Directors' Remuneration Report on page 26. The Directors are considered to be the only key management personnel.

Subsidiaries

Zotefoams plc owns 100% of the shares of Zotefoams International Ltd, which is incorporated in the UK and Zotefoams Inc., which is incorporated in the USA. Common control exists between Zotefoams plc and Zotefoams Employee Benefit Trust (EBT) and Zotefoams EBT has therefore been consolidated as described in note 1b. Transactions between Zotefoams plc and these subsidiaries are as follows overleaf.

25. Related parties continued**Income Statement**

	Sales to		Service fees to		Interest charged to		Interest charged from	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Zotefoams Inc.	4,601	3,405	72	72	94	136	44	21

Balance Sheet

	Loan owed to		Loan owed by		Payables owed to		Receivables owed by		Investment in	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Zotefoams Inc.	2,848	1,217	4,025	4,521	4	—	1,752	884	—	—
Zotefoams International	—	—	—	—	—	—	—	—	3,863	3,863

Loans with Zotefoams Inc. are interest bearing

Associates

Zotefoams Inc. owns 30% of the shares of MuCell Extrusion LLC. Transactions between Zotefoams plc and its subsidiaries and this associate are as follows:

	Note	Recharges of costs incurred by Zotefoams plc		Distribution received by Zotefoams Inc	
		2009 £000	2008 £000	2009 £000	2008 £000
Income Statement		40	20	—	—
Balance Sheet	13	—	—	(104)	(15)

26. Accounting estimates and judgements

In the application of the Group's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities which are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other facts that are considered relevant. Actual amounts may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Foreign exchange

Group hedging policy is to defer part of the impact of currency movements by hedging a proportion of projected transaction exposure. Forward exchange contracts are used to manage the exposure to fluctuations in foreign exchange rates. These forward contracts are entered into on the basis of forecasts of future trading and the valuation of these contracts is calculated using forward exchange rates.

Share-based payment transactions

The charge for share-based payment transactions is calculated in accordance with Group policy. The option valuation models used require subjective assumptions to be made including the future volatility of the Company's share price, expected dividend yields, risk-free interest rates and expected staff turnover. Note 24 contains information about assumptions relating to share-based payments.

Property, plant and equipment

In relation to the Group's property, plant and equipment, useful economic lives and residual values of assets have been established using historical experiences and an assessment of the nature of the assets involved. Assets are assessed on an ongoing basis to determine whether circumstances exist that could lead to a potential impairment of the carrying value of such assets. No circumstances have been identified to suggest that this is the case.

Intangible assets

The determination of goodwill and intangible assets requires judgements made by the Directors. Goodwill is reviewed annually to assess the requirement for impairment. Other intangible assets are assessed on an ongoing basis to determine whether circumstances exist that could lead to the conclusion that the carrying value of such assets is not supportable. Such calculations require judgement relating to the appropriate discount factors and long-term growth prevalent in particular markets as well as short-term business performance. The Directors also draw upon experience in making these judgements.

Development costs

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 require for capitalisation and therefore all development costs have been expensed.

Pensions assumptions

The valuation of pension scheme liabilities is calculated in accordance with Group policy. The valuation is prepared by an independent qualified actuary but significant judgements are required in relation to the assumptions for pension increases, inflation, the discount rate applied, investment returns and member longevity which underpin the valuations. Note 23 contains information about the assumptions relating to retirement benefit obligations.

Notice of 2010 Annual General Meeting

Notice is hereby given that the Annual General Meeting (the "AGM") of Zotefoams plc (the "Company") will be held at the registered office of the Company, 675 Mitcham Road, Croydon CR9 3AL on 11 May 2010 at 10.00 a.m. for the following purposes:

Ordinary business

To consider and, if thought fit, pass resolutions numbered 1 to 6 below as ordinary resolutions:

1. To receive the audited annual accounts of the Company for the year ended 31 December 2009, together with the Directors' Report, the Directors' Remuneration Report and the Auditors' Report on those annual accounts, the Directors' Report and that section of the Remuneration Report subject to audit.
2. To approve the Directors' Remuneration Report for the year ended 31 December 2009 in accordance with section 439 of the Companies Act 2006.
3. To declare a final dividend for the year ended 31 December 2009 of 3.0 pence per ordinary share, such dividend to be payable on 20 May 2010 to shareholders who are on the register of members of the Company at the close of business on 23 April 2010.
4. To re-elect D A Campbell as a Director who retires by rotation in accordance with the Company's articles of association.
5. To re-elect D B Stirling as a Director who retires by rotation in accordance with the Company's articles of association.
6. That KPMG Audit Plc be and is hereby re-appointed as auditors of the Company to hold office from the conclusion of this AGM until the conclusion of the next general meeting at which accounts are laid before the Company and that the Directors be and are hereby authorised to fix their remuneration.

Special business

To consider and, if thought fit, to pass the following resolutions of which resolutions 7 and 8 will be proposed as ordinary resolutions and resolutions 9, 10, 11 and 12 will be proposed as special resolutions:

7. That the Company may send or supply any document or information that is required or authorised to be sent or supplied by the Company to a member or any other person:
 - (a) under the Companies Acts (as defined in section 2 of the Companies Act 2006);
 - (b) pursuant to the Company's articles of association; or
 - (c) pursuant to any other laws, rules or regulations to which the Company may be subject;by electronic means or by any other means while in an electronic form (as defined in section 1168 of the Companies Act 2006), including by making it available on a website.
8. That in substitution for any equivalent authorities and powers granted to the Directors prior to the passing of this resolution, the Directors be and they are generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act"):
 - (a) to exercise all powers of the Company to allot shares in the Company, and grant rights to subscribe for or to convert any security into shares of the Company (such shares, and rights to subscribe for or to convert any security into shares of the Company being "relevant securities") up to an aggregate nominal amount of £638,221 (such amount to be reduced by the nominal amount of any allotments or grants made under paragraph (b) below in excess of £638,221); and further, subject to and conditional upon the resolution numbered 12 set out below being approved;
 - (b) to allot equity securities (as defined in section 560 (j) of the Act) in connection with a rights issue in favour of the holders of ordinary shares in the capital of the Company, where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly may be) to the respective number of ordinary shares in the capital of the Company held by them, up to an aggregate nominal amount of £1,276,633 (such amount to be reduced by the nominal amount of any allotments or grants made under paragraph (a) above),

provided that, unless previously revoked, varied or extended, this authority shall expire on the earlier of the date falling 18 months after the date of the passing of this resolution and the conclusion of the next annual general meeting of the Company except that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if this authority had not expired.

9. That the Directors be and they are empowered pursuant to section 570(1) of the Act to allot equity securities (as defined in section 560(1) of the Act) of the Company wholly for cash pursuant to the authority of the Directors under section 551 of the Act conferred by resolution 8 above, and/or by way of a sale of treasury shares (by virtue of section 573 of the Act), in each case as if section 561(1) of the Act did not apply to such allotment provided that:
- (a) the power conferred by this resolution shall be limited to:
 - (i) the allotment of equity securities in connection with an offer of equity securities to the holders of ordinary shares in the capital of the Company in proportion as nearly as practicable to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws or requirements of any overseas territory or by virtue of shares being represented by depository receipts or the requirements of any regulatory body or stock exchange or any other matter whatsoever; and
 - (ii) the allotment, otherwise than pursuant to sub-paragraph (i) above, of equity securities up to an aggregate nominal value equal to £95,742; and
 - (b) unless previously revoked, varied or extended, this power shall expire on the earlier of the date falling 18 months after the date of the passing of this resolution and the conclusion of the next annual general meeting of the Company except that the Company may before the expiry of this power make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if this power had not expired.
10. That the Company be and is hereby unconditionally and generally authorised for the purposes of section 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of its ordinary shares of 5 pence each ("Ordinary Shares") provided that:
- (a) the maximum number of Ordinary Shares authorised to be purchased is 3,829,709;
 - (b) the minimum price which may be paid for any such Ordinary Share is 5 pence;
 - (c) the maximum price which may be paid for an Ordinary Share shall be an amount equal to 105 per cent. of the average middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the 5 business days immediately preceding the day on which the Ordinary Share is contracted to be purchased; and
 - (d) this authority shall, unless previously renewed, revoked or varied, expire on the earlier of the date falling 18 months after the date of the passing of this resolution and the conclusion of the next annual general meeting, but the Company may enter into a contract for the purchase of Ordinary Shares before the expiry of this authority which would or might be completed (wholly or partly) after its expiry.
11. That a general meeting other than an annual general meeting may be called on not less than 14 clear days' notice.
12. That:
- (a) the articles of association of the Company be amended by deleting to the fullest extent permitted by law all the provisions of the Company's memorandum of association which, by virtue of section 28 of the Companies Act 2006, are to be treated as provisions of the Company's articles of association; and
 - (b) the articles of association produced to the meeting and initialled by the chairman of the meeting for the purposes of identification be adopted as the articles of association of the Company in substitution for, and to the exclusion of, the existing articles of association.

By order of the Board

CG Hurst

Company Secretary
Zotefoams plc

Registered office

675 Mitcham Road
Croydon CR9 3AL

31 March 2010

Notes

- (i) Pursuant to Part 13 of the Companies Act 2006 and to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only those members registered in the register of members of the Company at 6.00 p.m. on 7 May 2010 (or if the AGM is adjourned, 48 hours before the time fixed for the adjourned AGM) shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at that time. In each case, changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the AGM.
- (ii) If you wish to attend the AGM in person, please bring the accompanying attendance card and present this to the Company's reception desk upon arrival.
- (iii) A member who is entitled to attend, speak and vote at the AGM may appoint a proxy to attend, speak and vote instead of him. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A proxy need not be a member of the Company but must attend the AGM in order to represent you. A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. Appointing a proxy will not prevent a member from attending in person and voting at the AGM (although voting in person at the AGM will terminate the proxy appointment). A proxy form is enclosed. The notes to the proxy form include instructions on how to appoint the Chairman of the AGM or another person as a proxy. You can only appoint a proxy using the procedures set out in these Notes and in the notes to the proxy form.
- (iv) To be valid, a proxy form, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, should reach the Company's registrars, Computershare Investor Services Plc of PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, by no later than 10.00 a.m. on 7 May 2010.

Notice of 2010 Annual General Meeting continued

Notes continued

- (v) The notes to the proxy form include instructions on how to appoint a proxy by using the CREST proxy appointment service. You may not use any electronic address provided either in this notice of AGM or in any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.
- (vi) In the case of joint holders of shares, the vote of the first named in the register of members who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.
- (vii) The following information is available at www.zotefoams.com: (1) The matters set out in this notice of AGM; (2) the total numbers of shares in the Company, and shares in each class, in respect of which members are entitled to exercise voting rights at the AGM, (3) the totals of the voting rights that members are entitled to exercise at the AGM, in respect of the shares of each class; and (4) members' statements, members' resolutions and members' matters of business received by the Company after the first date on which notice of the AGM was given.
- (viii) If you are a person who has been nominated by a member to enjoy information rights in accordance with section 146 of the Companies Act 2006, Notes (iii) to (v) above do not apply to you (as the rights described in these Notes can only be exercised by members of the Company) but you may have a right under an agreement between you and the member by whom you were nominated to be appointed or to have someone else appointed, as a proxy for the meeting. If you have no such right or do not wish to exercise it, you may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
- (ix) A member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways: either by the appointment of a proxy (described in Notes (iii) to (v) above) or of a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the Company's articles of association and the relevant provision of the Companies Act 2006.
- (x) Members attending the AGM have the right to ask, and, subject to the provisions of the Companies Act 2006, the Company must cause to be answered, any questions relating to the business being dealt with at the AGM.
- (xi) As at 10.00 a.m. on 31 March 2010, the Company's issued share capital comprised 38,297,093 ordinary shares of 5 pence each. Each ordinary share carries the right to one vote at a general meeting of the Company. No ordinary shares were held in treasury and accordingly the total number of voting rights in the Company as at 10.00 a.m. on 31 March 2010 is 38,297,093.
- (xii) Shareholders should note that it is possible that, pursuant to requests made by shareholders of the Company under section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.
- (xiii) The following documents are available for inspection at the registered office of the Company during the usual business hours on any weekday (Saturday, Sunday or public holidays excluded) from the date of this notice until the conclusion of the AGM:
 - (a) copies of the executive Directors' service contracts with the Company and any of its subsidiary undertakings and letters of appointment of the non-executive Directors; and
 - (b) a copy of the proposed new articles of association of the Company, and a copy of the existing articles of association marked to show the changes being proposed in resolution 12.

Explanatory notes to the resolutions

Ordinary Business

Resolution 1 – Receiving the accounts and reports

All quoted companies are required by law to lay their annual accounts and reports before a general meeting of the Company, together with the Directors' Report, Directors' Remuneration Report, and Auditors' Report on the accounts, the Directors' Report and the section of the Directors' Remuneration Report subject to audit. At the AGM, the Directors will present these documents to the shareholders for the financial year ended 31 December 2009.

Resolution 2 – Remuneration Report

All quoted companies are required by law to produce for each financial year a Directors' Remuneration Report which sets out the Remuneration Committee's policy in relation to Directors' Remuneration, together with the remuneration and benefits paid to Directors during the year. The Company is also required to put an ordinary resolution to shareholders approving the report at the meeting at which the Company's report and accounts for that year are laid. Accordingly, resolution 2 seeks the approval of the Directors' Remuneration Report which is set out on pages 24 to 28 of the report and accounts for the financial year ended 31 December 2009.

The vote is advisory in nature and will have no effect on the remuneration of individual directors for the year under review. It will, however, provide shareholders with the means to express their opinion concerning remuneration matters and promote dialogue in respect of policy.

Resolution 3 – Declaration of dividend

This resolution concerns the Company's final dividend payment. The Directors are recommending a final dividend of 3.0 pence per ordinary share in respect of the year ended 31 December 2009 which, if approved, will be payable on 20 May 2010 to the shareholders on the register of members on 23 April 2010.

Resolutions 4 and 5 – Re-election of Directors

These resolutions concern the re-election of D A Campbell and D B Stirling who are retiring at the meeting by rotation in accordance with article 89 of the Company's articles of association. D A Campbell is a non-executive Director and D B Stirling is Managing Director. Biographies for these Directors are set out on page 20 of the report and accounts for the year ended 31 December 2009.

Special Business

Resolution 7 – Electronic Communications

The Companies Act 2006 makes provision for the use of electronic communications. The Company does not have any current intention of communicating electronically with shareholders but this would enable it to do so in the future if it so desired. In the event that it wanted to do so shareholders would be contacted in writing to request their consent for the use of electronic communications by means of a website for conveying information.

Resolution 8 – Directors' power to allot shares

This resolution grants the directors authority to allot shares in the capital of the Company and other relevant securities up to an aggregate nominal value of £638,221, representing approximately one-third (33.33 per cent.) of the nominal value of the issued ordinary share capital of the Company as at 31 March 2010, being the latest practicable date before publication of this notice. In addition, in accordance with the latest institutional guidelines issued by the Association of British Insurers ("ABI"), paragraph (b) of resolution 8 grants the directors authority to allot further equity securities up to an aggregate nominal value of £1,276,633, representing approximately two-thirds (66.67 per cent.) of the nominal value of the issued ordinary share capital of the Company as at 31 March 2010, being the latest practicable date before publication of this notice. This additional authority may be only applied to fully pre-emptive rights issues.

Notes continued

Resolution 8 – Directors' power to allot shares continued

The intention of the authority granted pursuant to paragraph (b) of resolution 8 is to preserve maximum flexibility and to keep the Company in line with what is expected to become standard practice for listed companies and if the Directors do exercise this authority, they intend to follow emerging best practice as regards its use (including the Directors standing for re-election in certain cases), as recommended by the ABI.

The Company does not currently hold any shares as treasury shares within the meaning of section 724 of the Companies Act 2006.

Save in respect of the issue of new ordinary shares pursuant to the share incentive schemes, the Directors do not have any present intention of exercising the authorities conferred by resolution 8 but they consider it desirable that the specified amount of authorised but unissued share capital is available for issue so that they can more readily take advantage of possible opportunities.

Unless revoked, varied or extended, this authority will expire at the conclusion of the next AGM of the Company or the date falling 18 months from the passing of the resolution, whichever is the earlier.

Resolution 9 – Authority to allot shares disregarding pre-emption rights

This resolution authorises the Directors in certain circumstances to allot equity securities for cash other than in accordance with the statutory pre-emption rights (which require a company to offer all allotments for cash first to existing shareholders in proportion to their holdings). The relevant circumstances are either where the allotment takes place in connection with a rights issue or the allotment is limited to a maximum nominal amount of £95,742, representing approximately 5 per cent. of the nominal value of the issued ordinary share capital of the Company as at 31 March 2010 being the latest practicable date before publication of this notice. Unless revoked, varied or extended, this authority will expire at the conclusion of the next AGM of the Company or 18 months after the passing of the resolution, whichever is the earlier.

Treasury shares regulations

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (as amended) ("Treasury Shares Regulations") give flexibility concerning what the Company can do with any of its ordinary shares that it may buy back. The Company may now hold such shares "in treasury" and then sell them at a later date for cash rather than simply cancelling them. The Treasury Shares Regulations require such sales to be on a pre-emptive, pro-rata basis to existing shareholders unless shareholders agree by special resolution to disapply such pre-emption rights. Accordingly, in addition to giving the Directors power to allot unissued ordinary shares on a non pre-emptive basis, resolution 9 will also give the Directors power to sell ordinary shares held in treasury on a non pre-emptive basis, subject always to the limitations noted above.

The Directors consider that the power proposed to be granted by resolution 9 is necessary to retain flexibility, although they do not have any intention at the present time of exercising such power.

Resolution 10 – Authority to purchase shares (market purchases)

This resolution authorises the board to make market purchases of up to 3,829,709 ordinary shares (representing approximately 10 per cent. of the Company's issued ordinary shares as at 31 March 2010, being the latest practicable date before publication of this notice). Shares so purchased may be cancelled or held as treasury shares. The authority will expire at the end of the next AGM of the Company or 18 months from the passing of the resolution, whichever is the earlier. The Directors intend to seek renewal of this authority at subsequent AGMs.

The minimum price that can be paid for an ordinary share is 5 pence being the nominal value of an ordinary share. The maximum price that can be paid is 5 per cent. over the average of the middle market prices for an ordinary share, derived from the Daily Official List of the London Stock Exchange, for the five business days immediately before the day on which the share is contracted to be purchased.

The Directors intend to exercise this right only when, in light of the market conditions prevailing at the time and taking into account all relevant factors (for example, the effect on earnings per share), they believe that such purchases are in the best interests of the Company and shareholders generally. The overall position of the Company will be taken into account before deciding upon this course of action. The decision as to whether any such shares bought back will be cancelled or held in treasury will be made by the directors on the same basis at the time of the purchase.

As at 31 March 2010, being the latest practicable date before publication of this notice, there were outstanding awards under the Company's long-term incentive schemes in respect of 1,866,947 ordinary shares in the capital of the Company representing 4.9 per cent. of the Company's issued ordinary share capital. If the authority to purchase the Company's ordinary shares were exercised in full, such options would represent 5.4 per cent. of the Company's issued ordinary share capital.

Resolution 11 – Notice period for general meetings

This resolution is required to reflect the implementation on 3 August 2009 of the EU Shareholder Rights Directive. The regulations implementing this Directive have increased the default notice period for general meetings of the Company to 21 clear days. The Company would like to have the ability (as it did before 3 August 2009) to call general meetings (other than an AGM) on 14 clear days' notice. In order to be able to do so after 3 August 2009, shareholders must have approved the calling of meetings on 14 days' notice. Resolution 11 seeks such approval and a similar resolution was passed at the Company's last AGM. The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Directive before it can call a general meeting on 14 days' notice. The Company intends to follow emerging institutional guidance as regards calling general meetings on 14 days' notice whereby, such notice would only be given when the proposals are time-sensitive and the short notice would clearly be in shareholders' interests.

Resolution 12 – Adoption of new articles of association

It is proposed in resolution 12 to adopt new articles of association (the "New Articles") in order to update the Company's current articles of association (the "Current Articles") primarily to take account of the coming into force of the Companies (Shareholders' Rights) Regulations 2009 (the "Shareholders' Rights Regulations"), the implementation of the last parts of the Companies Act 2006 and amendments to the Uncertificated Securities Regulations 2001.

The principal changes introduced in the New Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006, the Shareholders' Rights Regulations or the Uncertificated Securities Regulations 2001, or conform the language of the New Articles with that used in the model articles for public companies produced by the Department for Business, Innovation and Skills have not been noted in the summary below. The New Articles showing all the changes to the Current Articles are available for inspection, as noted on page 68 of this document.

(a) The Company's objects

The provisions regulating the operations of the Company are currently set out in the Company's memorandum and articles of association. The Company's memorandum contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake. This is drafted to give a wide scope.

The Companies Act 2006 significantly reduces the constitutional significance of a company's memorandum. The Companies Act 2006 provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the Companies Act 2006 the objects clause and all other provisions which are currently contained in a company's memorandum, for existing companies at 1 October 2009, will be deemed to be contained in a company's articles of association but the company can remove these provisions by special resolution.

Further, the Companies Act 2006 states that unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the Companies Act 2006, are to be treated as forming part of the Company's articles of association as of 1 October 2009. Resolution 12 confirms the removal of these provisions for the Company. As the effect of this resolution will be to remove the statement currently in the Company's memorandum of association regarding limited liability, the New Articles also contain an express statement regarding the limited liability of the shareholders.

Notice of 2010 Annual General Meeting continued

Notes continued

(b) Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are in the main amended to bring them into line with the Companies Act 2006.

(c) Change of name

Under the Companies Act 1985, a company could only change its name by special resolution. Under the Companies Act 2006 a company will be able to change its name by other means provided for by its articles. To take advantage of this provision, the New Articles enable the Directors to pass a resolution to change the Company's name.

(d) Authorised share capital and unissued shares

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital and the New Articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Companies Act 2006, save in respect of employee share schemes.

(e) Authority to consolidate and sub-divide shares, and reduce share capital

Under the Companies Act 1985, a company required specific enabling provisions in its articles to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves as well as shareholder authority to undertake the relevant action. The Current Articles include these enabling provisions. Under the Companies Act 2006 a company will only require shareholder authority to do any of these things and it will no longer be necessary for articles to contain enabling provisions. Accordingly the relevant enabling provisions have been removed in the New Articles.

(f) Provision for employees on cessation of business

The Companies Act 2006 provides that the powers of the directors of a company to make provision for a person employed or formerly employed by the company or any of its subsidiaries in connection with the cessation or transfer to any person of the whole or part of the undertaking of the company or that subsidiary, may only be exercised by the directors if they are so authorised by the company's articles or by the company in general meeting. The New Articles provide that the Directors may exercise this power.

(g) Use of seals

Under the Companies Act 1985, a company required authority in its articles to have an official seal for use abroad. Under the Companies Act 2006, such authority will no longer be required. Accordingly the relevant authorisation has been removed in the New Articles.

(h) Suspension of registration of share transfers

The Current Articles permit the directors to suspend the registration of transfers. Under the Companies Act 2006 share transfers must be registered as soon as practicable. The power in the Current Articles to suspend the registration of transfers is inconsistent with this requirement. Accordingly, this power has been removed in the New Articles.

(i) Vacation of office by directors

The Current Articles specify the circumstances in which a director must vacate office. The New Articles update these provisions to reflect the approach taken on mental and physical incapacity in the model articles for public companies produced by the Department for Business, Innovation and Skills.

(j) Voting by proxies on a show of hands

The Shareholders' Rights Regulations have amended the Companies Act 2006 so that it now provides that each proxy appointed by a member has one vote on a show of hands unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. The New Articles remove provisions in the Current Articles dealing with proxy voting on the basis that these are dealt with in the Companies Act 2006 and contain a provision clarifying how the provision of the Companies Act 2006 giving a proxy a second vote on a show of hands should apply to discretionary authorities.

(k) Voting by corporate representatives

The Shareholders' Rights Regulations have amended the Companies Act 2006 in order to enable multiple representatives appointed by the same corporate member to vote in different ways on a show of hands and a poll. The New Articles remove provisions in the Current Articles dealing with voting by corporate representatives on the basis that there are dealt with in the Companies Act 2006.

(l) Chairman's casting vote

The New Articles remove the provision giving the chairman a casting vote in the event of an equality of votes as this is no longer permitted under the Companies Act 2006.

(m) Notice of general meetings

The Shareholders' Rights Regulations amend the Companies Act 2006 to require the company to give 21 clear days' notice of general meetings unless the company offers members an electronic voting facility and a special resolution reducing the period of notice to not less than 14 days has been passed. Annual general meetings must be held on 21 clear days' notice. The New Articles amend the provisions of the Current Articles to be consistent with the new requirements.

(n) Adjournments for lack of quorum

Under the Companies Act 2006 as amended by the Shareholders' Rights Regulations, general meetings adjourned for lack of quorum must be held at least 10 clear days after the original meeting. The Current Articles have been changed to reflect this requirement.

(o) General

Generally the opportunity has been taken to bring clearer language into the New Articles and in some areas to conform the language of the New Articles with that used in the model articles for public companies produced by the Department for Business, Innovation and Skills.

Five Year Trading Summary

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Turnover	31.8	34.8	31.6	30.1	28.0
Operating profit (excluding exceptional items)	3.4	4.0	3.5	2.8	2.0
Profit before tax (excluding exceptional items)	3.2	3.9	3.4	2.7	1.8
Profit before tax (including exceptional items)	2.7	3.9	3.4	1.6	3.3
Profit after tax	2.2	3.0	2.9	1.2	2.4
Capital expenditure	3.4	1.4	2.7	2.6	1.1
Cash generated from the operations	7.0	5.8	4.8	4.7	4.1
Dividends per ordinary share (p)	4.5	4.5	4.5	4.5	4.5
Basic earnings per share excluding exceptional items (p)	6.8	8.3	8.0	5.4	3.5
Basic earnings per share including exceptional items (p)	5.9	8.3	8.0	3.4	6.7

Financial Calendar

AGM	11 May 2010
Payment of final dividend	20 May 2010 to shareholders on the register at the close of business on 23 April 2010
Announcement of 2010 interim results	August 2010
Payment of interim dividend	October 2010
Announcement of 2010 results	March 2011

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) which provides information on the business and products.

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Zotefoams plc

675 Mitcham Road
Croydon CR9 3AL
United Kingdom

T +44 (0)20 8664 1600
F +44 (0)20 8664 1616
info@zotefoams.com
www.zotefoams.com