ZOTEFOAMS

Annual Report and Financial Statements 2008

High Performance Foams for Specialist Markets Worldwide

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.

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Front cover image

Azote® foam

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Welcome to Zotefoams

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.

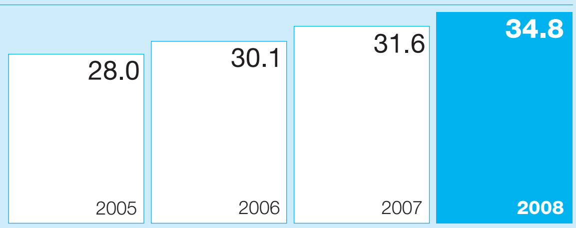
Our strategy is to expand sales internationally and broaden our market appeal with unique new products supported by our commitment to quality, innovation and customer service.

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.

Highlights

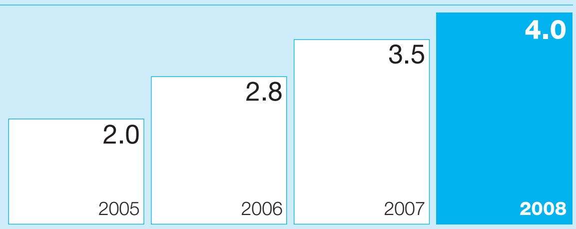
Revenue
(£m)

+10%



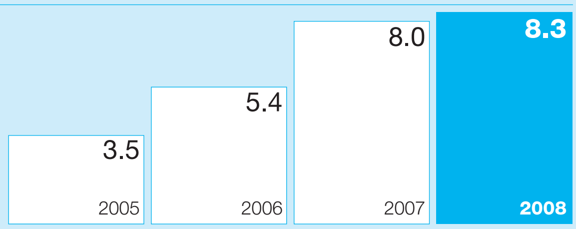
Operating profit (excluding exceptional items)
(£m)

+16%



Earnings per share (excluding exceptional items)
(p)

+4%



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:

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

Performance

1

Grow sales in our polyolefin business

Overall reported sales increased 10% reflecting the stronger US dollar and euro in 2008. Volumes declined by 0.4% and sales in constant currency, were at a similar level to 2007. We experienced volume growth of 5% for the first 9 months of 2008 compared with the same period in 2007 before a very sharp contraction in our markets in the final quarter of the year.

2

Develop a high-performance polymers portfolio to deliver enhanced margins

Sales in our high-performance poymers segment increased 9% to £800,000 as we benefitted from the stronger US dollar during 2008.

In the North American aerospace market which is our currently largest segment, sales reduced by 25% due to delays in certain Boeing programs along with the associated destocking. We made good, early stage, progress in other markets with our ZOTEK® F foams and T-Tubes® products. Sales of our ZOTEK N nylon foams, which show longer term promise, are still at very early stage of commercial adoption.

Our investment in MuCell® technology provides a platform for growth in foam technology in new application areas for the future.

3

Improve our operating margins

Operating margins improved from 11.0% to 11.6% of sales.

The stronger euro and US dollar rates during 2008 increased our revenues while also increasing the costs of our main raw materials which are euro-denominated, and the costs of our US operations in Kentucky.

Underlying euro prices for our major raw material, low density polyethylene, also increased during the year with our average cost 11% higher than on 2007. Plant utilisation levels were similar to the previous year but with increased focus on cost and efficiency savings.

4

Improve our return on capital employed

Pre-tax return on average capital employed improved, rising from 13% to 14%. This was driven by the growth in pre-tax profits which increased by 17% in 2008, exceeding the growth in average net assets employed by 9%.

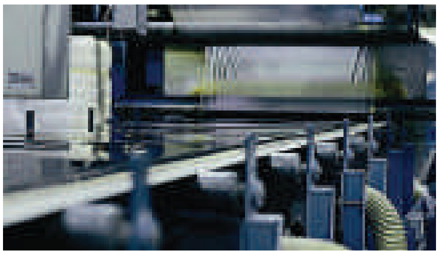
Production Process

Manufactured using pure nitrogen, in a unique process, our foams have significant advantages over competitive products. Zotefoams materials are light-weight, pure, low-odour, consistent and have strong aesthetic appeal thanks to their deep colours and rich textures. They are both easy and economical to process and provide added value opportunities for foam converters around the world.

The physical properties of our foams enables 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.

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.



Images

Quality
A Unique Process
The 3 stages of the manufacturing process: extrusion, high pressure gassing and final stage expansion.

Purity
Medical Packaging
Produced from dual density, high purity Plastazote® foam, BioShell, from UFP Technologies, Inc., is a custom designed, reusable protection system for sub-zero temperature transportation and storage of critical medical items.

Foot Orthoses
Plastazote® is used for foot orthoses and diabetic footwear insoles due to its hypoallergenic nature and ability to conform rapidly to the contours of the foot (Photo courtesy of Aetrex Inc.)

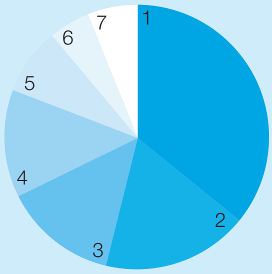
Durability
Clean Room Insulation
Major bio-pharmaceutical companies including Lonza Biologics plc use the T-Tubes® durable innovative insulation system on process piping in controlled environments.

Personnel Protection
Highly durable Azote® foams are used in knee pads, knife-stab resistant body protectors, helmets and lightweight, non-metallic shields by both the police and military.

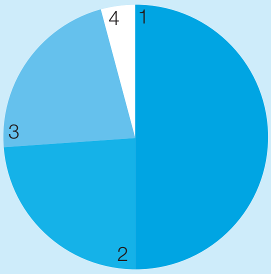
Consistency
Sealing Stained Glass
Cannon MacInnes used adhesive backed Plastazote® to reinstall the panes of the Zodiac Dome in the ceiling of Edinburgh Council's Banqueting Chamber, to ease future removal.

Eaves Fillers
Plastazote® foam has been used in eaves fillers for over 30 years, eliminating draughts, keeping out wildlife and sealing both the eaves and ridge flashing.

Revenue by Market Sector
1 Packaging **36%**
2 Industrial **18%**
3 Aerospace and automotive **14%**
4 Sport and leisure **13%**
5 Construction **8%**
6 Medical **5%**
7 Other **6%**



Revenue by Region
1 Europe **50%**
2 UK and Eire **24%**
3 North America **22%**
4 Rest of World **4%**



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

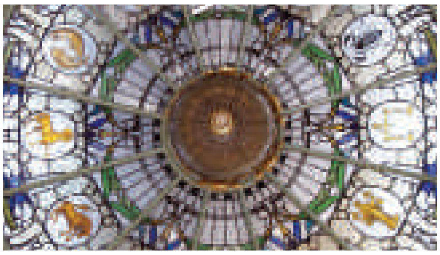
Long life protection
The combination of cross-linking and cell size uniformity produces foams with outstanding durability that are highly suitable for long-life use in a variety of protection applications.

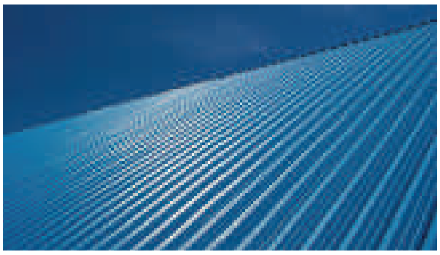
Multi-trip
Ideal for multi-trip returnable packaging applications, Azote foams represent a cost effective and greener alternative to expanded polystyrene foam packaging. The individual cells maintain their integrity for improved resistance to surface marking.

Consistency

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

Efficient utilisation
The consistency of our foams enable efficient material utilization and provide more reliable colour density.





Case Studies

Evazote® Squeegees Clean Up

Evazote foam is used for HEVA squeegee blades and has proven to be exceptionally durable.

HEVA hygienic, colour coded floor squeegees for the food industry are manufactured in Belgium by Vanzeebroeck NV.

Evazote foam is used for the squeegee blades and has proven to be exceptionally durable. The foam is more flexible and compliant than solid plastic and rubber materials and provides a better finish.

Evazote is non-absorbing and non-marking. It withstands sanitising detergents and disinfectants and it's bright colours are used to assist use differentiation. HEVA Squeegees are gaining in popularity and are now exported to all European countries, the Middle East, Africa and the USA.

Azote® Foam Floats Marine Hoses

Dunlop Oil & Marine Limited has been using Plastazote foams for more than 25 years.

Dunlop Oil & Marine Limited has been using Plastazote foams for more than 25 years to provide integral floatation and insulation to their range of large bore offshore marine hoses.

The hoses are used for the transportation of crude oil and for dredging applications. They are produced in bore sizes from 150mm to 1200mm.

Dunlop Oil and Marine is one of the leading hose manufacturers in this field and has been supplying hoses throughout the world from their Grimsby site for over 50 years.

Plastazote® has Style

Plastazote has become an integral part of the Gucci Envy image.

In 1997 the Gucci style guru Tom Ford, sought the assistance of the Zotefoams converter Cellutec to package their Gucci Envy fragrance range. Cellutec accepted the challenge and between November 1997 and April 1998 produced 600,000 Plastazote pieces for the brand.

Gucci continue to use Plastazote and have ordered some 10 million Plastazote pieces, in a variety of designs.

Plastazote has become an integral part of the Gucci Envy image and is now considered a mainstream material for a variety of luxury packaging applications.

"High quality foams from Zotefoams play vital roles in the widest range of technical, functional and aesthetic applications."

Case Studies

Plastazote® Foam Protects Printer Parts

VOC-free Plastazote foam resolves problems within the Canon manufacturing process.

Printer manufacturer Canon chose reusable foam packaging for the protection of its printer toner cartridge components during inter plant transfer. VOCs from the chemically blown foam previously used, proved corrosive to these sensitive components causing severe problems.

A change to high purity, VOC-free Plastazote foam resolved these problems within the Canon manufacturing process. Multi-trip Plastazote packaging now protects and cushions the delicate components without any fear of causing corrosion.

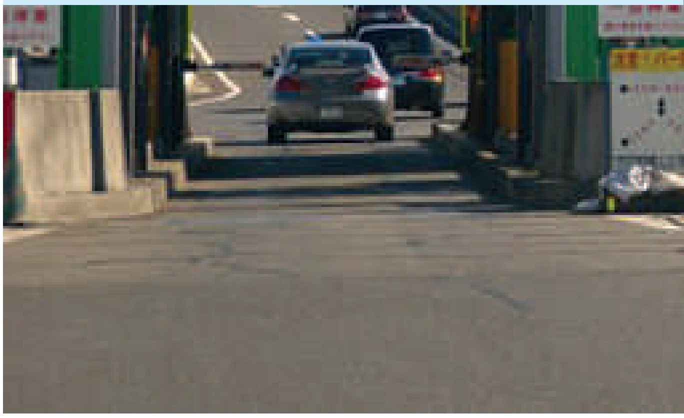
Plastazote® in Traffic Control

NEXCO uses Plastazote in the construction of its automatic raise-arm barrier.

In Japan, Plastazote is being used as a gate bar material in an automatic raise-arm barrier for Electronic Toll Collection (ETC) by NEXCO.

The gate bar is a composite construction of high density Plastazote material in the core for rigidity, sandwiched between lower density softer outer leaves.

The low mass arm helps reduce open/close time for swifter operation, aiding a reduction in toll-gate congestion, air pollution and CO_2 emissions.



ZOTEK® Insulates Aircraft Galley Equipment

ZOTEK F's flame retardancy was a decisive factor in Ipeco's specification decision.

Ipeco the world-leading manufacturer of aircraft crew seating and galley equipment has specified ZOTEK F 30 PVDF foam for insulating its refrigerator inserts and associated piping.

Inherently flame retardant, ZOTEK F is thought to be the only foam material to pass the stringent Federal Aviation Administration flame propagation test requirement FAR 25.856 (a) for thermal & acoustic insulation installed in the fuselage, a decisive factor in Ipeco's specification decision. The company utilises the material in flat sheets for panel insulation, as formed tubes to insulate pipe work and as thermo-moulded and machined parts to accommodate expansion valves.

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

Chairman's Statement
by Nigel Howard

Over recent years Zotefoams has developed an exciting portfolio of growth options outside our core polyolefin business.

Strategy
Zotefoams' strategy is to grow our existing business in polyolefin foams while developing a portfolio of high-performance polymers. We will seek to grow profitably through a combination of organic growth in both our polyolefin and high-performance polymers 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 has been supported by our factory in Kentucky since its opening in mid-2001. In Asia, we will 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 which will enjoy significant advantages over competitive materials. This will allow higher margins for Zotefoams and confirm our position as a global leader in foam technology. We intend to achieve this growth while continuing to improve our operating margins and our return on capital employed.

Employees
Our business relies on our employees and on behalf of the Board I would like to thank all of our employees whose talents, efforts and dedication combined to make 2008 a successful year.

Overview of results
During 2008 we grew profit before tax by 17% to £3.93m (2007: £3.37m) and sales increased by 10% to £34.78m (2007: £31.61m). Gross margins increased to 29.1% (2007: 27.1%) and Group operating margins improved from 11.0% to 11.6% of sales.

In July we invested US$3 million to acquire a 30% shareholding in a joint venture to exploit and further develop through commercial licensing a unique microcellular foam technology for extrusion. Zotefoams is licensed to use this technology in our own business and we plan to commence manufacture under this licence in 2009.

We generated £5.77m cash from operations, an increase of 21% over 2007 (£4.78m), and ended the year with net debt of £1.15m.

Dividend
We are proposing to maintain a final dividend of 3.0p per ordinary share which, if approved, would make a total of 4.5p per ordinary share for the year (2007: 4.5p). The dividend is 1.8 times covered by after tax profits.

Outlook

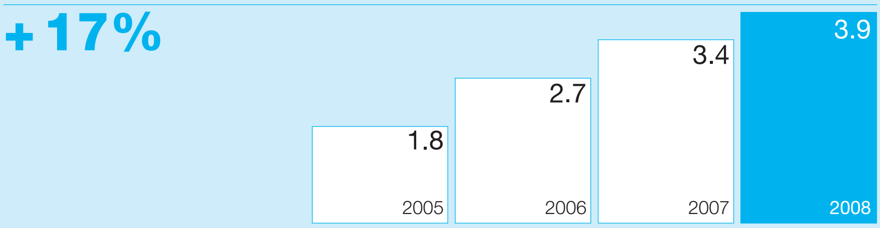
Over recent years Zotefoams has developed an exciting portfolio of growth options outside our core polyolefin business and the recent investment in MuCell® technology and successes in T-Tubes® insulation add to the opportunities offered by our unique fluoropolymer and nylon foams. Our business has low gearing and strong cash generation and we continue to invest to support these future opportunities.

We are benefiting from favourable exchange rates and prices of our major raw materials are currently lower than in 2008. However, trading for the first two months of 2009 is at lower levels of volumes than anticipated and we are taking appropriate measures to control costs to reflect this lower activity level. Furthermore, the current economic conditions and lack of forward order visibility makes the outlook more uncertain than it has been for many years. However, notwithstanding the likelihood that 2009 will be a challenging year, the Board remains positive about the longer term prospects for the business.

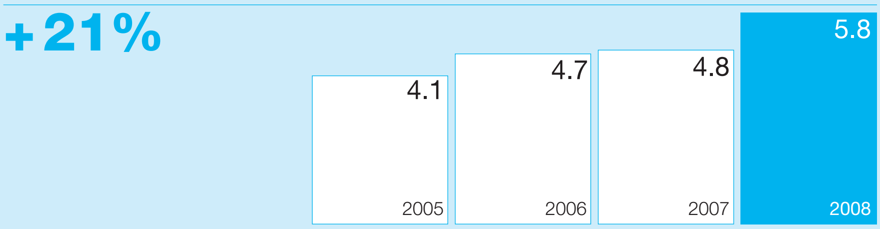
Nigel Howard
Chairman
9 March 2009

Nigel Howard
Chairman

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



Cash generated from operations
(£m)



Business Review
by David Stirling & Clifford Hurst

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

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 considers its business to fall into two distinct categories: polyolefin foams and high-performance polymers. Both businesses rely on our unique production process which uses nitrogen gas at high temperature and pressure to foam solid plastics. Polyolefin foams are mainly made from polyethylene which, when foamed, produces a versatile material used in a wide variety of applications. Typically our products are sold to foam converters who process the foam by a variety of techniques such as cutting, welding, moulding and routing into finished or semi-finished parts based on end-user requirements. The benefits of Zotefoams' products are evident at both foam processors and end-users and include purity, consistency of processing, good performance to weight ratio and aesthetics. Key to growing 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.

Our main business is in the manufacture and sale of polyolefin foams and sales in this business segment grew to £33.98m (2007: £30.87m) due to favourable foreign exchange rates. This business was affected in the latter part of the year by unfavourable economic conditions which saw a considerable slowdown in key end market segments, particularly in automotive and construction. Other segments were affected to varying degrees although the diversity of our business across market segments limits the risk of a significant segment-specific downturn. In the face of these trading conditions, the Company was able to maintain sales volume levels at similar levels to 2007. In these uncertain times, customers more than ever require shorter lead-times to mitigate inventory exposure. Our ability to anticipate and react to our customers' needs provides us with a real competitive advantage in this environment.

High-performance polymers ("HPP") 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 difficult to predict. This segment of our product range is relatively immature and thus far commercial successes are mainly in the aviation market where our ZOTEK® F fluoropolymer foams are gaining acceptance, particularly in North America. During 2008 sales to the aviation market experienced delays in adoption of specified programs. Further delays, along with temporary de-stocking in our supply chain, were caused by industrial action at Boeing late in the year. Despite this, HPP sales were £800,000, an increase of 9% over the previous year with growth from favourable exchange rates and in segments outside aviation offsetting the de-stocking in the aviation market. Progress in penetrating the market for advanced insulation in clean rooms with the T-Tubes® branded product made from ZOTEK® F foams is good with smaller, typically trial basis, installations on biotech and pharmaceutical sites in Europe and Asia and we have added a second direct salesperson in response to the opportunities in this sector.

In July 2008 Zotefoams invested US$3m for a 30% shareholding in MuCell Extrusion LLC ("ME LLC"), a newly created company set up to develop extrusion-based microcellular foaming using supercritical nitrogen and CO_2 and a licence to use the MuCell® technology. The business model is to license this technology, which is patent protected, across a wide variety of industries where foaming of polymer can reduce material content and costs for the licensee or can provide the benefits such as insulation, light-weight, buoyancy etc associated with lighter density foams. The process has the added benefits of being environmentally friendly and does not use chemical foaming agents, the residues of which are unwanted in many applications. The Company has acquired a license to use the MuCell® technology and is in the process of developing products and investing in process machinery to manufacture thin, low-density roll foams which are widely used in high-performance sealing, automotive, tape and medical markets worldwide. ME LLC has made good progress in developing the technology and licensing third parties for applications across a variety of markets and materials in rolls, tubes and profiles.

David Stirling
Managing Director

Clifford Hurst
Finance Director

Zotefoams has an option to acquire the remaining balance of 70% of the shares of ME LLC from July 2010.

Strategy and Objectives

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

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 high-performance polymers portfolio to deliver enhanced margins.
3. Improve our operating margins.
4. Improve our return on capital employed.

Performance in 2008 against these objectives was as follows:

1. Sales:
   a. Sales in the UK and Europe fell by 1% in constant currency. Having grown by 6% in constant currency in the first half of 2008 performance in the second half was adversely affected by very difficult economic conditions, the impact of which was magnified by significant de-stocking in some segments of our markets;
   b. Polyolefin sales in North America grew by 1% in constant currency. Our North American business is relatively more exposed to the automotive and construction segments than our European business and these segments were first to feel the impact of the economic downturn; and

Business Review continued

MuCell

The MuCell® technology is a patent-protected microcellular foaming system using nitrogen or carbon dioxide as the foaming agent. It is easily fitted to existing extrusion systems and can be used to make sheets, profiles or tubes of foamed polymer.

MuCell Extrusion LLC ("ME LLC") was formed to license this foaming technology to a wide variety of applications and markets. Zotefoams investment in ME LLC 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 ME LLC 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.

c. Polyolefin sales in Asia grew by 17% in constant currency. Our presence in Asia is limited to niche, higher added-value products and this is where we are focusing our resources.

2. Sales of high-performance polymers grew by 9%. Delays in two major aviation programs in North America led to significantly reduced sales to this segment offsetting the benefits of a more favourable currency and the growth experienced in other areas.
3. Group operating margins improved from 11.0% to 11.6% of sales revenue.
4. Pre-tax return on capital employed, pre-exceptional items, increased from 13% to 14%.

Operations

Zotefoams operates three key processes in the manufacture of our foams: extrusion, high-pressure nitrogen gassing and low-pressure foam expansion. Our site in Croydon UK operates all processes while our "satellite" site in Northern Kentucky, USA, receives intermediate materials from the UK and, using low-pressure foam expansion, processes them into Azote® polyolefin foams for the North American market. There is sufficient capacity in Kentucky for the foreseeable future and our capital program for capacity increases and process capability enhancement is focused on our Croydon plant. During 2008 we spent £1.42m on capital expenditure, which is low by recent standards, and is below our depreciation charge of £2.90m. Major items of expenditure included the upgrade of an extrusion system used for our more technical products and the commencement of the refurbishment and upgrade of one of our large high-pressure vessels. Historically our high-pressure capacity was operated using a water-cooling mechanism and the resulting corrosion requires periodic refurbishment. The recent refurbishment program, begun in 2008 and anticipated to complete in Q3: 2009, converts our final large high-pressure vessel from this steam system.

Financial Results

The 10% increase in Group sales was due to favourable exchange rates. Gross margin increased by 2% to 29.1% from 27.1% with the benefit of these favourable exchange rates more than offsetting the increased sterling cost of our currency denominated raw materials. Our major raw materials are commodity polymers and these have been subject to large price movements during 2008. The price of low density polyethylene, by far our largest raw material cost, started the year at around €1,300 per tonne and then increased in the third quarter to a peak of nearly €1,500 per tonne before falling to just over €700 per tonne in the fourth quarter.

Energy costs have a significant impact on our business with energy costs amounting to 5% of Group sales. In March 2007 we renewed our UK energy contract fixing prices for two years from 1 December 2007 to 30 November 2009 allowing certainty of input prices on which to base our relationship with customers. Distribution costs (which include selling expenses) rose by 20% as we continued to increase our commercial resources in both polyolefins and high-performance polymers. Administrative expenses include a foreign exchange loss of £0.19m (2007: profit of £0.23m) which represents the profit/loss on forward exchange contracts used to hedge our currency exposure and the foreign exchange translation profit/loss.

We purchased a 30% share of MuCell Extrusion LLC at the beginning of July 2008 and the business broke even, before amortisation costs, in the second half of 2008.

After amortisation we have recorded a loss of £27,000 for MuCell Extrusion LLC. After this, Group profit before tax increased by 17% to £3.93m (2007: £3.37m).

The overall effective tax rate is 24%, below the UK corporation tax rate of 28.5% for the year. This is principally due to the lower tax charge incurred in our US subsidiary where we have brought forward tax losses. In 2007 our effective tax rate was 13% due to a £0.20m reduction in the Group's deferred tax liability following a change in the rate at which the Group's future corporation tax liabilities are provided for and a £0.23m favourable adjustment to the tax charge in respect of prior periods. Excluding these two items, our effective tax rate for 2007 was 26%.

Earnings Per Share and Dividend

Group earnings per share were 8.3p (2007: 8.0p). In 2008 we grew profit before tax by 17% and profit after tax by 3% due to the impact of one-off tax credits in 2007. The Directors are recommending that the final dividend is maintained at 3.0p per share, and, subject to shareholder approval, payable on 21 May 2009 to shareholders on the Company register at 24 April 2009. This would bring the total dividend to 4.5p per ordinary share for the year (2007: 4.5p).

Plastazote is used by Stacey Composites in professional ice-hockey goalie protection.

Cash Flow
Cash generated from operations was £5.77m (2007: £4.78m). This paid for capital expenditure of £1.42m which was lower than in previous years (2007: £2.69m) reflecting the phasing of projects. It also paid for our acquisition of a 30% share in MuCell Extrusion LLC and the MuCell® technology licence (£1.56m). We are pleased to report that, after these items and the dividend payment of £1.64m, there was a £0.53m reduction in net debt (2007: net debt increase of £0.26m).

At 31 December 2008 the Group's banking facilities consisted of £0.30m outstanding on a £2.00m loan taken out in 2004, which is repayable by August 2009 and a £5.00m overdraft facility renewable in May 2009. Based on discussions with our bankers the Board expect the overdraft facility to be renewed and since the year end the Group has increased its facilities by taking out a further £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 2008 net debt was £1.15m (2007: £1.68m) and gearing remained low at 4% (2007: 6%).

Powerful brands

Zotefoams has two strong brands, Azote® and ZOTEK®, which offer significant marketing opportunities in a diverse portfolio of 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.

Plastazote®
Evazote®
Supazote®
Propozote®

ZOTEK®

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

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

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

ZOTEK® F
ZOTEK® N

Business Review continued

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 28.

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 always possible. We therefore monitor the situation closely and maintain "desk-top" studies of alternate materials which may be offered to our customers as substitutes.

Technological Change and Competitor Activity

Market demand for our products depends, in part, on availability of suitable alternatives. Any significant change in competitor activity or a technological change which brings new or enhanced products to the market may result in a change in demand for our products. Zotefoams maintains close contacts with existing customers and end-users to understand market activity and trends and has a constant flow of product variants developed for specific projects to maintain and enhance our position with our customers. We are developing a portfolio of high-performance polymers which are unique and protected by both patents and process capability. We believe these products will open up new markets with a significant and lasting differential advantage for the Group.

Foreign Exchange

Zotefoams mainly sells in the local currencies of the customer and in 2008 approximately 75% of our revenue was in currencies other than sterling, particularly euros and US dollars. Our manufacturing assets and costs, including capital expenditure, are substantially in the UK and therefore sterling denominated, although we do have US dollar costs associated with our facility in Kentucky, USA and the majority of our raw material purchases are denominated in euros. The net impact of this is that we generate surpluses in euros and US dollars which we convert to sterling. We manage this risk firstly by converting all purchases to either euros or US dollars wherever sensible. This reduces our net exposure and transaction costs of converting from one currency to another. The Group hedging policy to deal with the remaining risk is set out in note 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's existing £5.00m overdraft facility expires in May 2009. The Board expect the overdraft facility to be renewed and since the year end the Group has increased its facilities by taking out 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 2008 net debt was £1.15m (2007: £1.68m) and gearing remains low at 4% (2007: 6%).

Pension Liabilities

Zotefoams operates a Defined Benefit Pension Scheme (the "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 £3.5m, an increase of £1m from the previous triennial review in April 2005. As a result of this review the Company has agreed with the Trustees to pay £55,000 per month into the Scheme from January 2009 until June 2016 to eliminate this deficit. Previously the Company had agreed to pay £50,000 per month from January 2006 to December 2010.

David Stirling Managing Director
Clifford Hurst Finance Director
9 March 2009

Investing in people

2008 was easily the most resource intensive and extensive investment we've made towards investing in our people.

In 2008 Zotefoams undertook a significant development and training initiative across our business. In summary we completed over 8,800 hours of training for 213 employees focused on:

- Leadership development and management practices; and
- Continuous improvement.

Beginning in 2007, we embarked on a renewed commitment to invest in our people and drive continuous improvement in a disciplined and structured manner. These initiatives were a catalyst to approach our business using lean principles during 2008 and beyond.

85 percent of our employees completed formal training provided by independent, third-parties that specialize in leadership development, management practices and continuous improvement.

Endorsed by the Learning Skills Council (LSC), Business Improvement Techniques (NVQ Level II) training was completed for 154 employees, facilitated by external advisers. This program involved at least 20 hours of classroom instruction covering health & safety, teamwork, communications, problem-solving, continuous improvement, 5S and visual management. It included cost, delivery and quality improvement projects to reinforce the application of the training. There were 20 teams and 60 projects completed during 2008.

Alongside the Business Improvement Techniques training we also pioneered Lean Simulation & Value Stream Mapping and a Six Sigma "design of experiment" project at Zotefoams' Croydon site.

2008 was easily the most resource intensive and extensive investment we've made in our people, in an effort to help them grow, develop and drive business excellence in a disciplined and structured manner. These investments are a critical building block for our future.

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 Campell 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

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Evolution Securities Ltd
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London EC2V 7AN

From left to right
Roger Lawson, Clifford Hurst, Nigel Howard,
Richard Clowes, David Stirling, David Campell

Directors' Report

The Directors present their annual report and audited financial statements for the year ended 31 December 2008.

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 2008 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 12 to 17.

Results and dividends
Profit attributable to shareholders for the year amounted to £3.01m (2007: £2.92m). An interim dividend of 1.5p (2007: 1.5p) per share was paid on 29 September 2008. The Directors recommend that a final dividend of 3.0p (2007: 3.0p) per share be paid on 21 May 2009 to shareholders who are on the Company's register at the close of business on 24 April 2009. This makes total dividend of 4.5p per share for the year (2007: 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 AGM or other general meeting of the Company.

All of the current Directors named on page 18 served throughout the year. The Directors retiring by rotation at the Annual General Meeting ('AGM') are N G Howard and C G Hurst who, being eligible, offer themselves for re-election. N G Howard has a service contract which is terminable on six months' written notice and C G Hurst a service contract which is terminable on twelve months' written notice. Biographical details of N G Howard and C G Hurst can be found in the section on Directors and Advisers on page 18.

The Company has granted indemnities in favour of Directors under Deeds of Indemnity. These Deeds were in force during the year ended 31 December 2008 and remain in force as at the date of the report. The Deeds and the Company's Articles of Association are available for inspection during normal business hours at the Company's registered office and will be available at the AGM.

Employees
To ensure employee welfare, the Group has documented and well-publicised policies on occupational health and safety, the environment and training. It operates an equal opportunities, single status employment policy, together with an open management style. The Company operates to a number of recognised industry standards including Quality (ISO 9001), Environmental (ISO 14001) and Occupational Health and Safety (OHSAS 18001) approvals.

Further details of the Group's employment policies, including its policy regarding the employment of disabled people are set out in the Corporate Social Responsibility Report on page 28.

Substantial shareholdings
As at 9 March 2009, 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
Schroder Investment Management	4,417,325	11.69%
Sekisui Alveo AG	3,814,762	10.10%
Liontrust Asset Management Ltd	3,607,142	9.55%
DWS Investment GmbH	2,930,777	7.76%
Gartmore Investment Limited	2,893,433	7.66%
Aberdeen Asset Management PLC's Fund Management Subsidiaries	2,357,100	6.24%

The holding held by Schroder Investment Management includes beneficial and non-beneficial interests. The non-beneficial interests include holdings held on behalf of the Mineworkers Pension Scheme (2,625,000 shares, 6.95%) and British Coal Staff Superannuation Scheme (2,041,612 shares, 5.40%).

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 £731,000 (2007: £803,000). This included work on PVDF and nylon 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 2008, trade creditors of the Company represented 36 days of purchases (2007: 17 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 1,378,098 shares issued 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 note 20 to the financial statements.

At the AGM held on 8 May 2008 the Company was given authority to purchase up to 3,640,260 of its ordinary shares.

This authority will expire at the 2009 AGM. During the period from 8 May 2008 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 16 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 (2007: nil) and no political contributions (2007: nil) in the year.

Articles of Association
A resolution will be proposed at the AGM to adopt new Articles of Association in order to update the Company's current Articles of Association primarily to take account of charges in English company law brought about by the Companies Act 2006.

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
9 March 2009

Directors' Remuneration Report

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

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

Information not subject to audit

Remuneration Committee

The Company has established a Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. D A Campbell, R J Clowes, N G Howard and R H Lawson were members of this Committee throughout 2008 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 on 1 January 2007. The Committee was chaired throughout 2008 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.

Benefits

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

Annual bonus payments
The Committee establishes the objectives that must be met for each financial year if a cash bonus is to be paid. In setting appropriate bonus levels the Committee refers to independent surveys of Directors' remuneration. The Committee believes that any incentive compensation awarded should be tied to the interests of the Company's shareholders and that the principal measure of those interests is profit before taxation excluding exceptional items.

Executive Directors, other than the Managing Director, are also set personal objectives, the non-achievement of which can restrict the bonus award made. The bonus award was capped at 100% of bonusable salary for 2008. That element of the bonus payment over 40% of bonusable salary will be paid in restricted shares which will only be capable of release if the executive is still employed by the Company three years later. Incentive payments under the scheme for the year ended 31 December 2008 varied between 21.3% and 22.4% of bonusable salary for the executive Directors. Profit before taxation, excluding exceptional items, increased by 16.6%.

The policy for 2009 and the future is for a maximum annual bonus of 100% of salary of which the Committee proposes any bonus payment over 40% of bonusable annual salary would be paid in restricted shares.

Share options and long-term incentives
The Company currently does not operate any long-term incentive schemes other than the 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 2008 an award of 50% of salary was made.

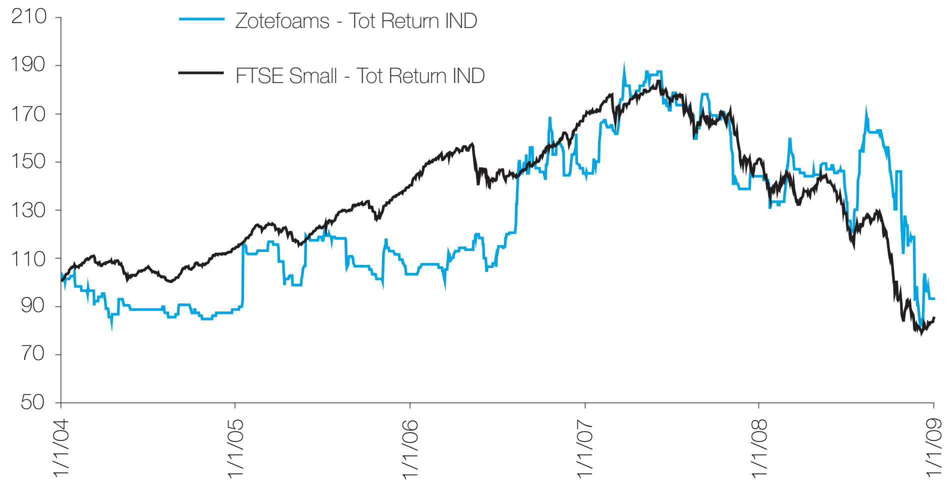
UK based executive Directors and senior management have also been granted share options under a Her Majesty's Revenue and Customs Approved Share Option Scheme. These options are not exercisable unless the Group's normalised earnings per share, excluding exceptional items, increases by at least three percentage points 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 schemes.

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 2008.

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 2004. 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 2004 to December 2008).



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 2008**	Total 2007
D A Campbell	24,875	—	—	—	—	**24,875**	20,170
R J Clowes	22,313	—	—	—	—	**22,313**	9,647
N G Howard	46,500	—	—	—	—	**46,500**	45,000
C G Hurst	98,742	22,791	10,561	18,867	1,244	**152,205**	171,296
R H Lawson	24,875	—	—	—	—	**24,875**	23,563
C J Ryan[3]	—	—	—	—	—	**—**	23,000
D B Stirling	140,143	34,496	11,640	21,872	1,973	**210,124**	237,870
	357,448	57,287	22,201	40,739	3,217	**480,892**	530,546

Note:

1) Other benefits are calculated in terms of taxable values in the UK.
2) 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.
3) C J Ryan was a Director until 31 December 2007.

Directors' shareholdings

The beneficial and non-beneficial interests of the Directors (including persons connected with them within the meaning of Section 346 of the Companies Act 1985) in the ordinary shares of the Company are set out below:

Number of ordinary 5p shares	**31 December 2008**	31 December 2007
D A Campbell	**5,939**	5,939
R J Clowes	**20,000**	20,000
N G Howard	**40,000**	40,000
C G Hurst	**78,745**	78,745
R H Lawson	**5,000**	5,000
C J Ryan (resigned 31 December 2007)	**Not disclosed**	20,000
D B Stirling	**79,979**	66,979
	229,663	236,663

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 2007	Granted	Exercised	Lapsed	Cancelled	**As as 31 December 2008**	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	173,863	—	—	(57,954)	—	**115,909**	77.0p	22.12.2008	21.12.2015
D B Stirling	Executive SOS	240,584	—	—	(80,195)	—	**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	—	74,122	—	—	—	**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**	106.7	12.08.2011	11.08.2018
D B Stirling	HMRC SOS	—	28,116	—	—	—	**28,116**	106.7	12.08.2011	11.08.2018

Executive Share Option Scheme (Executive SOS)

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

The thresholds are as follows:

	Percentage increase above RPI needed for:		
Executive share options first exercisable in:	Full award	Two-third award	One-third award
2008	200%	150%	100%

The Executive SOS options awarded in 2004, which were first exercisable in April 2007 vested with one-third of the options awarded. The Executive SOS options awarded in 2005, which were first exercisable in December 2008 vested with two-thirds of the options awarded.

There were no options awarded under the Executive SOS in 2008 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 2008 was 59.5p and the high and low prices during the year were 110.0p and 52.5p 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.

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 2008 LTIP shares granted was 98.7p on the date of the grant.

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' Remuneration Report continued

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 pension 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	8,176	303	—	72,896	58,758
D B Stirling	16,065	596	—	125,539	100,919

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 transfer value basis was amended from 1 October 2008 as a result of changes to legislation.

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 2008 are shown in the table of Directors' Emoluments.

Approval

The report was approved by the Board of Directors on 9 March 2009 and signed on its behalf by:

D A Campbell
Non-executive Director and Chairman of the Remuneration Committee.
9 March 2009

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 2008 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 2008 the Audit Committee has:
- reviewed the financial statements in the 2007 and 2008 report and accounts and the interim report issued in August 2008. 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 2008;
- 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.

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 2008. 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. The Audit Committee also maintains an oversight over the Company's whistleblowing policy.

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

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

R H Lawson
Non-executive Director and Chairman of the Audit Committee
9 March 2009

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 30.

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 2008 the Finance Director was directly responsible to the Board for Safety, Health and Environmental performance. Site committees met quarterly to consider all SHE matters and Steering Committees, chaired by the Managing Director (or appropriate responsible person in subsidiary companies), also meet quarterly to consider overall performance and the impact of current and impending legislation. A Health and Safety Adviser and an Environmental Adviser support these groups.

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

We take reporting of all incidents very seriously, including “near misses” and plant or equipment damage not resulting in personal injury. All events are investigated by appropriate levels of management to establish root cause and to eliminate re-occurrence wherever possible. 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 uses for some of its high-pressure vessels was found. This was reported in the 2005 annual report. To minimise the extent of this corrosion the Board has accelerated the refurbishment and upgrade programme for the vessels involved. Our target, which is based on the most prudent course from a safety perspective while continuing to operate, is for a serial refurbishment of all water-cooled vessels on the shortest practical timescale. To date we have completed the refurbishment of all our major high pressure vessels under this programme, apart from one major vessel which is in the process of being refurbished. One minor vessel has been refurbished and two further minor vessels remain affected and these are being monitored prior to refurbishment or withdrawal from service.

In 2008 there were 8 reportable lost time injuries in the Group (2007: 7). Four of these were strain injuries and four were impact injuries (one tendon injury, one burns injury and two cuts). All had different causes and have been fully investigated with corrective actions implemented. Additional training programmes were held in 2008 for safety representatives, managers and supervisors in Zotefoams plc.

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 2008 the Group had 4 internally recorded environmental incidents (2007: 13). Three of these were noise complaints received from neighbours (2007: 2). All were investigated and actions taken. The other recorded incident was the release of nitrogen gas into the air from bursting disks which are an essential part of our statutory equipment safety regime (2007:9). 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 2008 8% of the total foam waste produced was sent to landfill (2007: 7%) and the rest was successfully recycled.

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

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. The Group has adopted a Code of Business Conduct, approved by the main Board, which provides practical guidance for all staff. This guidance is included in the employee handbook and incorporated into an induction process which all employees must complete.

Corporate Governance

The Company is committed to the principles of corporate governance contained in the Combined Code on Corporate Governance (the 'Code') that was issued in 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 2008 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 2008 by the Directors for meetings of the Board and these Committees are shown below:

	Formal Board meetings		Audit Committee meetings		Remuneration Committee meetings		Nominations Committee meetings	
Attendance at meetings	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
D A Campbell	8	8	3	3	3	3	1	1
R J Clowes	8	8	3	3	3	3	1	1
N G Howard	8	8	n/a	n/a	3	3	1	1
C G Hurst	8	8	n/a	n/a	n/a	n/a	n/a	n/a
R H Lawson	8	8	3	3	3	3	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.

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 2009 two Directors will stand for re-election:

- N G Howard;
- C G Hurst.

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

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

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

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

Relations with shareholders
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.

Corporate Governance continued

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

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

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

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

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

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

Information and communication
Annual budgets are a key part of the planning process and performance against plan is actively monitored at Board level supported by quarterly forecasts. Statistics and commentary on actual operating performance are made available to all Directors monthly, and forecasts are presented to the Board quarterly.

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

Control procedures
The Group has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties, reviews by management, internal audit, and external audit to the extent necessary to arrive at their audit opinion.

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

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

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

Statement of Directors' Responsibilities

Statement of Directors' responsibilities in respect of the annual report and the financial statements
The Directors are responsible for preparing the annual report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.
Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

Responsibility Statement of the Directors in respect of the Annual Report and Accounts
The Directors confirm that to the best of their knowledge:

- The Group and Parent Company's financial statements, prepared in accordance with applicable UK law and in conformity with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole and,

- The management report, which comprises the Directors' Report and the Annual Business Review, includes a fair review of the development and performance of the business and position of the Company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and the uncertainties they face.

The Directors of Zotefoams plc are detailed on page 18.

By order of the Board

C G Hurst
Finance Director

Independent Auditors' Report

to the members of Zotefoams plc

We have audited the Group and Parent Company financial statements (the ''financial statements") of Zotefoams plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Recognised Income and Expenses, and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the annual report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 33.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referenced from the Business Review section of the Directors' Report. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRS as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 December 2008;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Crawley
9 March 2009

Consolidated Income Statement

for the year ended 31 December 2008

	Note	2008 £000	2007 £000
Revenue	2	**34,781**	31,606
Cost of sales		**(24,658)**	(23,035)
Gross profit		**10,123**	8,571
Distribution costs		**(2,820)**	(2,344)
Administrative expenses		**(3,273)**	(2,766)
Operating profit		**4,030**	3,461
Financial income	5	**1,150**	1,063
Finance costs	5	**(1,222)**	(1,152)
Share of loss from associate		**(27)**	—
Profit before tax		**3,931**	3,372
Taxation	6	**(925)**	(454)
Profit for the year	3	**3,006**	2,918
Attributable to:			
Equity holders of the parent		**3,006**	2,918
Earnings per share			
Basic (p)	7	**8.3**	8.0
Diluted (p)	7	**8.1**	7.9

Consolidated Statement of Recognised Income and Expense

for the year ended 31 December 2008

	2008 £000	2007 £000
Foreign exchange translation differences on investment in foreign subsidiary/associate	**3,043**	(117)
Effective portion of changes in fair value of cash flow hedges net of recycling	**(1,079)**	(269)
Actuarial (losses)/gains on defined benefit schemes	**(1,658)**	1,141
Tax on items taken directly to equity	**766**	(271)
Net income recognised directly in equity	**1,072**	484
Profit for the year	**3,006**	2,918
Total recognised income and expense for the year	**4,078**	3,402
Attributable to equity holders of the parent	**4,078**	3,402

Company Statement of Recognised Income and Expense

for the year ended 31 December 2008

	2008 £000	2007 £000
Effective portion of changes in fair value of cash flow hedges net of recycling	**(1,079)**	(269)
Actuarial (losses)/gains on defined benefit schemes	**(1,658)**	1,141
Tax on items taken directly to equity	**766**	(271)
Net (expense)/income recognised directly in equity	**(1,971)**	601
Profit for the year	**3,999**	2,733
Total recognised income and expense for the year	**2,028**	3,334
Attributable to equity holders of the Company	**2,028**	3,334

Consolidated Balance Sheet
as at 31 December 2008

	Note	2008 £000	2007 £000
Non-current assets			
Property, plant and equipment	9	**26,775**	26,436
Intangible assets	10	**121**	—
Investment in associate	12	**1,912**	—
Deferred tax assets	18	**239**	138
Total non-current assets		**29,047**	26,574
Current assets			
Inventories	13	**4,335**	4,280
Trade and other receivables	14	**8,408**	7,351
Cash and cash equivalents	15	**429**	258
Total current assets		**13,172**	11,889
Total assets		**42,219**	38,463
Non-current liabilities			
Interest-bearing loans and borrowings	17	**—**	(300)
Employee benefits	23	**(3,527)**	(2,465)
Deferred tax liabilities	18	**(1,969)**	(2,699)
Total non-current liabilities		**(5,496)**	(5,464)
Current liabilities			
Interest-bearing loans and borrowings	17	**(300)**	(400)
Bank overdraft	15	**(1,281)**	(1,242)
Tax payable		**(937)**	(561)
Trade and other payables	16	**(4,984)**	(4,130)
Total current liabilities		**(7,502)**	(6,333)
Total liabilities		**(12,998)**	(11,797)
Total net assets		**29,221**	26,666
Equity			
Issued share capital	19	**1,889**	1,820
Own shares held	20	**(69)**	—
Share premium	20	**13,941**	13,941
Capital redemption reserve	20	**15**	15
Translation reserve	20	**2,291**	(752)
Hedging reserve	20	**(1,264)**	(185)
Retained earnings	20	**12,418**	11,827
Total equity attributable to the equity holders of the parent	20	**29,221**	26,666

These financial statements were approved by the Board of Directors on 9 March 2009 and signed on its behalf by:

N G Howard
Chairman

C G Hurst
Finance Director

Company Balance Sheet

as at 31 December 2008

	Note	2008 £000	2007 £000
Non-current assets			
Property, plant and equipment	9	**20,722**	21,676
Intangible assets	10	**121**	—
Investment in subsidiaries	11	**8,384**	5,649
Total non-current assets		**29,227**	27,325
Current assets			
Inventories	13	**3,384**	3,355
Trade and other receivables	14	**7,701**	7,514
Cash and cash equivalents	15	**31**	—
Total current assets		**11,116**	10,869
Total assets		**40,343**	38,194
Non-current liabilities			
Interest-bearing loans and borrowings	17	**—**	(300)
Employee benefits	23	**(3,527)**	(2,465)
Deferred tax liabilities	18	**(1,969)**	(2,699)
Total non-current liabilities		**(5,496)**	(5,464)
Current liabilities			
Interest-bearing loans and borrowings	17	**(1,517)**	(1,053)
Bank overdraft	15	**(1,281)**	(1,242)
Tax payable		**(937)**	(561)
Trade and other payables	16	**(4,681)**	(3,948)
Total current liabilities		**(8,416)**	(6,804)
Total liabilities		**(13,912)**	(12,268)
Total net assets		**26,431**	25,926
Equity			
Issued share capital	19	**1,889**	1,820
Own shares held	20	**(69)**	—
Share premium	20	**13,941**	13,941
Capital redemption reserve	20	**15**	15
Hedging reserve	20	**(1,264)**	(185)
Retained earnings	20	**11,919**	10,335
Total equity attributable to the equity holders of the Company	20	**26,431**	25,926

These financial statements were approved by the Board of Directors on 9 March 2009 and signed on its behalf by:

N G Howard
Chairman

C G Hurst
Finance Director

Consolidated Cash Flow Statement

for the year ended 31 December 2008

	Note	**2008 £000**	2007 £000
Cash flows from operating activities			
Profit for the year		**3,006**	2,918
Adjustments for:			
Depreciation, amortisation and impairment		**2,931**	3,129
Gain on sale of plant and equipment		**—**	(9)
Financial income		**(1,150)**	(1,063)
Finance costs		**1,222**	1,152
Share of loss from associate		**27**	—
Equity-settled share-based payments		**165**	91
Taxation		**925**	454
Operating profit before changes in working capital and provisions		**7,126**	6,672
Increase in trade and other receivables		**(596)**	(1,287)
Decrease/(increase) in inventories		**227**	(504)
(Decrease)/increase in trade and other payables		**(387)**	498
Decrease in provisions and employee benefits		**(600)**	(600)
Cash generated from the operations		**5,770**	4,779
Interest paid		**(68)**	(138)
Tax paid		**(698)**	(564)
Net cash from operating activities		**5,004**	4,077
Proceeds on disposal of property, plant and equipment		**—**	22
Interest received		**14**	17
Acquisition of property, plant and equipment		**(1,420)**	(2,692)
Acquisition of licence		**(150)**	—
Investment in associate		**(1,410)**	—
Distribution from associate		**15**	—
Net cash used in investing activities		**(2,951)**	(2,653)
Proceeds from the issue of share capital		**—**	202
Repurchase of own shares		**—**	(242)
Repayment of borrowings		**(400)**	(400)
Dividends paid		**(1,638)**	(1,637)
Net cash used in financing activities		**(2,038)**	(2,077)
Net increase/(decrease) in cash and cash equivalents		**15**	(653)
Cash and cash equivalents at 1 January		**(984)**	(329)
Effect of exchange rate fluctuations on cash held		**117**	(2)
Cash and cash equivalents at 31 December	15	**(852)**	(984)

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

Company Cash Flow Statement

for the year ended 31 December 2008

	Note	**2008 £000**	2007 £000
Cash flows from operating activities			
Profit for the year		**3,999**	2,733
Adjustments for:			
Depreciation, amortisation and impairment		**2,492**	2,731
Foreign exchange (gains)/losses		**(1,196)**	56
Financial income		**(1,248)**	(1,282)
Finance costs		**1,201**	1,159
Equity-settled share-based payments		**165**	91
Taxation		**1,024**	498
Operating profit before changes in working capital and provisions		**6,437**	5,986
Increase in trade and other receivables		**(195)**	(1,952)
Increase in inventories		**(29)**	(200)
(Decrease)/increase in trade and other payables		**(426)**	497
Decrease in provisions and employee benefits		**(600)**	(600)
Cash generated from the operations		**5,187**	3,731
Interest paid		**(47)**	(145)
Tax paid		**(696)**	(581)
Net cash flow from operating activities		**4,444**	3,005
Interest received		**110**	236
Acquisition of property, plant and equipment		**(1,400)**	(2,622)
Acquisition of licence		**(150)**	—
Net cash used in investing activities		**(1,440)**	(2,386)
Proceeds from issue of share capital		**—**	202
Purchase of own shares		**—**	(242)
Increase in investment in subsidiary		**(1,506)**	—
Intercompany loan issued		**—**	(27)
Intercompany loan received		**564**	653
Repayment of borrowings		**(400)**	(400)
Dividends paid		**(1,638)**	(1,637)
Net cash used in financing activities		**(2,980)**	(1,451)
Net increase/(decrease) in cash and cash equivalents		**24**	(832)
Cash and cash equivalents at 1 January		**(1,242)**	(411)
Effect of exchange fluctuations on cash held		**(32)**	1
Cash and cash equivalents at 31 December	15	**(1,250)**	(1,242)

Notes to the Financial Statements

1. Accounting policies
Zotefoams plc (the 'Company') is a Company incorporated in Great Britain.

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

Both Parent Company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS").

On publishing the Parent Company financial statements here together with the Group financial statements the Company is taking advantage of the exemption in Section 230 of the Companies Act 1985 not to present its individual Income Statement and related notes that form part of these approved financial statements.

These financial statements were approved by the Board on 9 March 2009.

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 Recognised Income and Expense.

iii) Share-based payment transactions

The share option programme allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employee becomes unconditionally entitled to the options. The fair value of the options granted before 2006 were measured using a Monte Carlo simulation method. Options granted 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 (EBT)

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 6.

s) Segmental reporting

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

t) Investments in equity securities

Investments in subsidiaries are stated at cost less impairment losses (see accounting policy k).

u) Adopted IFRS not yet applied

A number of relevant new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008 and have not been applied in preparing these consolidated financial statements:

IFRS 8 Operating Segments introduces the “management approach” to segment reporting. IFRS 8, which becomes mandatory for the Group’s 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Managing Director, as the Group’s Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them. Currently the Group presents information under two operating and four geographical segments. The Group will review the implications of IFRS 8 in preparing its 2009 financial statements.

Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group’s 2009 financial statements and may constitute a change in accounting policy for the Group. The Group will review the implications of IAS 23 in preparing its 2009 financial statements.

IFRIC 13 Customer Loyalty Programmes. This will become mandatory for the Group's 2009 financial statements and is not expected to have any impact on the consolidated financial statements.

2. Segment reporting

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

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

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 foams from high-performance polymers is currently in its early stages with costs (including the technical and marketing costs to develop these materials) exceeding revenues.

	Polyolefins		HPP		Consolidated	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Revenue	**33,981**	30,872	**800**	734	**34,781**	31,606
Operating profit/(loss)	**4,567**	4,001	**(537)**	(540)	**4,030**	3,461
Net financing costs					**(72)**	(89)
Loss from associate					**(27)**	—
Taxation					**(925)**	(454)
Profit for the year					**3,006**	2,918
Segment assets	**39,929**	36,434	**2,051**	1,891	**41,980**	38,325
Unallocated assets	**—**	—	**—**	—	**239**	138
Total assets					**42,219**	38,463
Segment liabilities	**(10,088)**	(8,370)	**(5)**	(167)	**(10,093)**	(8,537)
Unallocated liabilities	**—**	—	**—**	—	**(2,905)**	(3,260)
Total liabilities					**(12,998)**	(11,797)
Depreciation	**2,850**	3,093	**52**	36	**2,902**	3,129
Capital expenditure	**1,394**	2,600	**26**	92	**1,420**	2,692

Geographical segments

	UK and Eire £000	Europe £000	North America £000	Rest of the world £000	Total £000
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**
For the year ended 31 December 2007					
Revenue from external customers	8,180	15,249	7,131	1,046	31,606
Segment assets	30,881	—	7,582	—	38,463
Capital expenditure	2,622	—	70	—	2,692

3. Expenses and auditors' remuneration

	2008 £000	2007 £000
Included in profit for the year are:		
Research and development costs expensed	**731**	803
Net exchange losses/(gains)	**185**	(227)
Auditors' remuneration:		
Group – audit of these financial statements	**95**	84
– fees receivable by the auditors and their associates in respect of other services:		
– other services pursuant with legislation	**24**	18
– other services relating to taxation	**13**	11
– other services relating to acquisition of associate	**20**	—
	152	113

Notes to the Financial Statements continued

4. 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	
	2008	2007	**2008**	2007
Production	**134**	134	**125**	124
Maintenance	**18**	17	**15**	14
Distribution and marketing	**41**	33	**31**	27
Administration and technical	**63**	62	**55**	54
	256	246	**226**	219

The aggregate payroll costs of these persons were as follows (£000s):

Wages and salaries	**7,556**	7,330	**6,710**	6,611
Social security costs	**787**	801	**702**	663
Share-based payments	**165**	91	**165**	91
Other pension costs	**599**	590	**556**	554
	9,107	8,812	**8,133**	7,919

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

5. Finance income and costs

Financial income

	2008 £000	2007 £000
Interest on bank deposits	**12**	17
Expected return on assets of defined benefit pension fund	**1,138**	1,046
	1,150	1,063

Finance costs

On bank loans and overdrafts	**80**	140
Interest on defined benefit pension obligation	**1,142**	1,012
	1,222	1,152

6. Taxation

	Note	**2008 £000**	2007 £000
UK corporation tax		**1,135**	904
Overseas taxation		**2**	(5)
Adjustment to prior year UK tax charge		**(66)**	(81)
Current taxation		**1,071**	818
Deferred taxation	18	**(146)**	(364)
Total tax charge		**925**	454

Factors affecting the tax charge

The tax charge for the period is lower (2007: lower) than the standard rate of corporation tax in the UK of 28.5% (2007: 30%). The differences are explained below:

	2008 £000	2007 £000
Tax reconciliation		
Profit before tax	**3,931**	3,372
Tax at 28.5 % (2007: 30%)	**1,120**	1,011
Effects of:		
Research and development tax credits less expenses not deductible for tax purposes	**(7)**	(39)
Deferred tax rate change from 30% to 28%	**—**	(204)
Partial recognition of US tax losses	**(60)**	(32)
Lower tax rates on overseas earnings	**(62)**	(51)
Adjustments to UK corporation tax charge in respect of previous periods	**(66)**	(81)
Adjustments to deferred tax charge in respect of previous periods	**—**	(150)
Total tax charge	**925**	454

A reduction in the UK tax rate from 30% to 28%, was effective from 1 April 2008, and in accordance with IAS12 Income Taxes, the deferred tax liabilities and assets have been calculated using a rate of 28%.

7. Dividends and earnings per share

	2008 £000	2007 £000
Final dividend prior year of 3.0p (2006: 3.0p) net per 5.0p ordinary share	**1,091**	1,090
Interim dividend of 1.5p (2007: 1.5p) net per 5.0p ordinary share	**547**	547
Dividends paid during the year	**1,638**	1,637

The proposed final dividend for the year ended 31 December 2008 of 3.0p per share (2007: 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 £3,006,000 (2007: £2,918,000) 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 2008 was 1,378,098 (2007: nil). 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.

	2008	2007
Average number of ordinary shares issued	**36,402,608**	36,375,270
Deemed issued for no consideration	**559,791**	692,568
Diluted	**36,962,399**	37,067,838

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 and the Deferred Bonus Plan:

		Number of shares under option	
Date from which exercisable	Exercise price	**2008**	2007
7 April 2007	72.5p	**152,834**	152,834
22 December 2008	77.0p	**684,213**	1,026,320
10 May 2010	nil	**306,959**	306,959
20 March 2011	nil	**233,283**	—
12 August 2011	106.7p	**267,911**	—
		1,645,200	1,486,113

The average fair value of one ordinary share during the year was considered to be 78.0p (2007: 113.6p).

8. Profit for the financial year
The Group accounts do not include a separate Income Statement for Zotefoams plc (the parent undertaking) as permitted by Section 230 of the Companies Act 1985. The Parent Company profit after tax for the financial year is £3,999,000 (2007: £2,733,000).

Notes to the Financial Statements continued

9. 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 2007	14,193	38,458	1,811	2,119	56,581
Acquisitions	—	114	159	2,374	2,647
Disposals	—	(21)	—	—	(21)
Reclassifications	—	2,305	14	(2,319)	—
Effect of movement in foreign exchange	(60)	(60)	(2)	—	(122)
Balance at 31 December 2007	14,133	40,796	1,982	2,174	59,085
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**
Depreciation and impairment					
Balance at 1 January 2007	4,130	23,556	1,742	135	29,563
Depreciation charge for the year	562	2,504	63	—	3,129
Disposals	—	(12)	—	—	(12)
Reclassifications	—	135	—	(135)	—
Effect of movement in foreign exchange	(11)	(19)	(1)	—	(31)
Balance at 31 December 2007	4,681	26,164	1,804	—	32,649
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**
Net book value					
At January 2007	10,063	14,902	69	1,984	27,018
At 31 December 2007 and 1 January 2008	9,452	14,632	178	2,174	26,436
At 31 December 2008	**9,856**	**15,624**	**336**	**959**	**26,775**

Included in plant and machinery for both the Company and the Group are assets of £300,000 (2007: £700,000) 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 £959,000 (2007: £2,174,000) for the Group.

9. 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 2007	10,590	34,509	1,691	2,119	48,909
Acquisitions	—	70	133	2,374	2,577
Disposals	—	—	—	—	—
Reclassifications	—	2,305	14	(2,319)	—
Balance at 31 December 2007	10,590	36,884	1,838	2,174	51,486
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**
Depreciation and impairment					
Balance at 1 January 2007	3,372	21,926	1,646	135	27,079
Depreciation charge for the year	421	2,262	48	—	2,731
Disposals	—	—	—	—	—
Reclassifications	—	131	4	(135)	—
Balance at 31 December 2007	3,793	24,319	1,698	—	29,810
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**
Net book value					
At 1 January 2007	7,218	12,583	45	1,984	21,830
At 31 December 2007 and 1 January 2008	6,797	12,565	140	2,174	21,676
At 31 December 2008	**6,377**	**13,099**	**287**	**959**	**20,722**

10. Intangible assets

	Group		Company	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Licence granted to use MuCell® technology				
Cost	**150**	—	**150**	—
Amortisation	**(29)**	—	**(29)**	—
Balance at 31 December	**121**	—	**121**	—

11. Investment in subsidiaries

	Company	
	2008 £000	2007 £000
Shares in Group undertakings – at cost	**7,157**	5,651
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	**4,521**	3,292
	8,384	5,649

The investments consist of the entire ordinary share capital of Zotefoams International Limited and a $6,500,000 loan (2007: $6,500,000) to Zotefoams Inc.

The movements in investments during the year were:

- a £1,506,000 equity contribution to Zotefoams International Limited to fund the purchase of a 30% interest in MuCell Extrusion LLC via Zotefoams Inc.
- 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.

Notes to the Financial Statements continued

12. Investment in associate

On 8 July 2008 Zotefoams Inc acquired a 30% shareholding in a newly created entity, MuCell Extrusion LLC. Zotefoams has an option to increase its shareholding 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.

Net assets acquired were as follows:

	Book value £000	Fair value adjustment £000	**Fair value £000**
Brand	—	552	**552**
Intellectual property	—	1,430	**1,430**
Property, plant and equipment	17	—	**17**
Cash and cash equivalents	251	—	**251**
Net identifiable assets	268	1,982	**2,250**
Goodwill on acquisition			**2,270**
100% share			**4,520**
30% share			**1,356**
Total purchase price comprising consideration of £1,356,000 and legal fees of £54,000			**1,410**
Licence to use MuCell® technology			**150**
Net cash outflow on acquisition			**1,560**

The intellectual property assets of the business are the patents of the Company. The brand assets are the MuCell® trademark and in particular the formulas, recipes and technological expertise which form the marketing assets of the Company. Other than intellectual property and the brand there were no significant intangible assets acquired as part of the transaction and therefore the differences between the consideration and the fair value of the identifiable assets acquired has been designated goodwill.

Summary aggregated financial information on associates - 100 per cent:

At 31 December:	**2008 £000**	2007 £000
Goodwill	**3,159**	—
Intangible assets	**2,642**	—
Tangible assets	**27**	—
Current assets	**243**	—
Cash	**173**	—
Total assets	**6,244**	—
Total liabilities	**(127)**	—
Net assets	**6,117**	—
For the period ended 31 December:		
Revenue	**315**	—
Loss after amortisation	**(90)**	—

MuCell Extrusion LLC was created on 1 July 2008 and therefore the above results reflect six months trading from 1 July 2008 to 31 December 2008. The loss for the period is after amortisation of £90,000 on intangible assets. The reporting date for MuCell Extrustion LLP is 30 June. The financial information included within these financial statements is based on management information as at 31 December 2008.

Reconciliation of movement in MuCell valuation:

	2008 £000	2007 £000
Initial cost of investment including expenses	**1,410**	—
Share of result for period	**(27)**	—
Distribution received	**(15)**	—
Effect of movement in foreign exchange	**544**	—
Investment in associate as at 31 December	**1,912**	—

13. Inventories

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Raw materials and consumables	**1,754**	1,556	**1,695**	1,528
Work in progress	**994**	1,226	**788**	949
Finished goods	**1,587**	1,498	**901**	878
	4,335	4,280	**3,384**	3,355

The carrying amount of inventories subject to retention of title clauses is £122,000 (2007: £302,000).
In 2008 the value of inventory recognised by the Group as an expense in cost of goods sold was £20,735,000 (2007:£18,791,000).

14. Trade and other receivables

	Note	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Amounts falling due within one year:					
Trade receivables		**8,084**	7,115	**6,506**	5,628
Fair value derivatives	21	**—**	8	**—**	8
Amounts owed by Group undertakings	25	**—**	—	**884**	1,655
Other receivables		**134**	90	**134**	90
Prepayments and accrued income		**190**	138	**177**	133
		8,408	7,351	**7,701**	7,514
Trade receivables are shown net of: impairment losses		**124**	97	**94**	80

15. Cash and cash equivalents/bank overdrafts

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Cash and cash equivalents per balance sheet	**429**	258	**31**	—
Bank overdrafts	**(1,281)**	(1,242)	**(1,281)**	(1,242)
Cash and equivalents per cash flow statements	**(852)**	(984)	**(1,250)**	(1,242)

16. Trade and other payables

	Note	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Trade payables		**1,537**	700	**1,500**	657
Other creditors including taxation and social security:					
Other taxation and social security		**259**	235	**206**	214
Fair value derivatives	21	**1,264**	193	**1,264**	193
Other payables		**594**	745	**471**	670
Accruals and deferred income		**1,330**	2,257	**1,240**	2,214
		4,984	4,130	**4,681**	3,948

17. Interest-bearing loans and borrowings

	Note	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Bank loans		**300**	400	**300**	400
Amounts due to Group undertakings	25	**—**	—	**1,217**	653
Amounts falling due within one year		**300**	400	**1,517**	1,053
Bank loans		**—**	300	**—**	300
Amounts falling due in more than one year		**—**	300	**—**	300
	21	**300**	700	**1,517**	1,353

Notes to the Financial Statements continued

18. 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	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Property, plant and equipment	**—**	—	**2,432**	2,603	**2,432**	2,603
Rolled-over gain	**—**	—	**902**	902	**902**	902
Inventories	**(92)**	(51)	**—**	—	**(92)**	(51)
Financial instruments	**(354)**	(52)	**—**	—	**(354)**	(52)
Employee benefits	**(1,011)**	(754)	**—**	—	**(1,011)**	(754)
Tax value of recognised losses carried forward	**(147)**	(87)	**—**	—	**(147)**	(87)
Tax (assets)/liabilities	**(1,604)**	(944)	**3,334**	3,505	**1,730**	2,561
Set off tax	**1,365**	806	**(1,365)**	(806)	**—**	—
Net tax (assets)/liabilities	**(239)**	(138)	**1,969**	2,699	**1,730**	2,561

At 31 December 2008 a deductible temporary difference of £1,578,000 (2007: £638,000) 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 $5.6m 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 £1.4m. The Group has only recognised £147,000 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 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**

Movement in deferred tax during the prior year

	Balance 1 January 2007 £000	Recognised in income £000	Recognised in equity £000	Balance 31 December 2007 £000
Property, plant and equipment	3,090	(487)	—	2,603
Rolled-over gain	967	(65)	—	902
Inventories	(44)	(7)	—	(51)
Financial instruments	25	—	(77)	(52)
Employee benefits	(1,318)	227	337	(754)
Tax value of recognised losses carried forward	(55)	(32)	—	(87)
	2,665	(364)	260	2,561

18. 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	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Property, plant and equipment	**—**	—	**2,432**	2,603	**2,432**	2,603
Rolled-over gain	**—**	—	**902**	902	**902**	902
Financial instruments	**(354)**	(52)	**—**	—	**(354)**	(52)
Employee benefits	**(1,011)**	(754)	**—**	—	**(1,011)**	(754)
Tax (assets)/liabilities	**(1,365)**	(806)	**3,334**	3,505	**1,969**	2,699
Set off tax	**1,365**	806	**(1,365)**	(806)	**—**	—
Net tax liabilities	**—**	—	**1,969**	2,699	**1,969**	2,699

Movement in deferred tax during the 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**

Movement in deferred tax during the prior year

	Balance 1 January 2007 £000	Recognised in income £000	Recognised in equity £000	Balance 31 December 2007 £000
Property, plant and equipment	3,090	(487)	—	2,603
Rolled-over gain	967	(65)	—	902
Financial instruments	25	—	(77)	(52)
Employee benefits	(1,318)	227	337	(754)
	2,764	(325)	260	2,699

19. Share capital

	2008 £	2007 £
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: 37,780,706 (2007: 36,402,608) ordinary shares of 5.0p each	**1,889,035**	1,820,130

Details of share options are provided in note 24 to the accounts on page 59.

During the year the Company issued 1,378,098 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

20. Capital and reserves

Reconciliation of movement in capital and reserves – Group

	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 2007	1,816	—	13,753	5	(635)	84	9,815	24,838
Shares issued	14	—	188	—	—	—	—	202
Shares purchased	(10)	—	—	10	—	—	(242)	(242)
Total recognised income and expense	—	—	—	—	(117)	(269)	3,788	3,402
Equity-settled share-based payment transactions net of tax	—	—	—	—	—	—	103	103
Dividends	—	—	—	—	—	—	(1,637)	(1,637)
Balance at 31 December 2007	1,820	—	13,941	15	(752)	(185)	11,827	26,666
Balance at 1 January 2008	1,820	—	13,941	15	(752)	(185)	11,827	26,666
Shares issued to EBT	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	—	—	—	—	—	—	(1,638)	(1,638)
Balance at 31 December 2008	**1,889**	**(69)**	**13,941**	**15**	**2,291**	**(1,264)**	**12,418**	**29,221**

The aggregate current and deferred tax relating to items that are credited to equity is £685,000 (2007: a charge of £260,000).

Reconciliation of movement in capital and reserves – Company

	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 2007	1,816	—	13,753	5	84	8,508	24,166
Shares issued	14	—	188	—	—	—	202
Shares purchased	(10)	—	—	10	—	(242)	(242)
Total recognised income and expense	—	—	—	—	(269)	3,603	3,334
Equity-settled share-based payment transactions net of tax	—	—	—	—	—	103	103
Dividends	—	—	—	—	—	(1,637)	(1,637)
Balance at 31 December 2007	1,820	—	13,941	15	(185)	10,335	25,926
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	—	—	—	—	—	(1,638)	(1,638)
Balance at 31 December 2008	**1,889**	**(69)**	**13,941**	**15**	**(1,264)**	**11,919**	**26,431**

The aggregate current and deferred tax relating to items that are credited to equity is £685,000 (2007: a charge of £260,000).

Translation reserve

Exchange differences relating to the translation of the net assets of the Group's foreign operations, from their functional currency into the parent's functional currency, being sterling, are recognised directly in the translation reserve. Gains and losses on hedging instruments that are designated as hedges of net investments in foreign operations are included in the translation reserve.

Hedging reserve

The hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in cashflow hedges.
The cumulative deferred gain or loss on the hedging instrument is recognised in the Income Statement only when the hedged transaction impacts the Income Statement, or when the hedge is deemed to be not effective, consistent with applicable accounting policy.

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 period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, liquidity risk and foreign 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 2008 and 2007, the Group had credit insurance to mitigate this risk. However the uninsured exposure as at 31 December 2008 was £1,377,000 (2007: £1,360,000) 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:

	Group	
	2008 £000	2007 £000
Amounts neither past due or impaired	**6,625**	5,614
Amounts past due but not impaired		
Less than 60 days	**1,459**	1,501
More than 60 days	**—**	—
Total past due but not impaired	**1,459**	1,501
Amounts impaired	**126**	97
Impairment allowance	**(126)**	(97)
Carrying amount of impaired receivables	**—**	—
Trade receivables net of allowances	**8,084**	7,115

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:

	2008				2007			
	Effective interest rate	**Fixed rates £000**	**Variable rates £000**	**Total £000**	Effective interest rate	Fixed rates £000	Variable rates £000	Total £000
Sterling	**4%**	**—**	**1,581**	**1,581**	6%	—	1,942	1,942
		—	**1,581**	**1,581**		—	1,942	1,942

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 17 on page 51. The Group has a short-term facility of £5.0m which is freely transferable and convertible into sterling. This facility expires at the end of May 2009 and is utilised by Zotefoams plc and its subsidiary undertakings under a cross-guarantee structure.

In August 2004 Zotefoams plc borrowed £2.0m under a five year mortgage, repayable in equal quarterly instalments. This facility is secured over specific plant assets. At 31 December 2008 £0.3m of this mortgage was outstanding and £1.7m had been repaid. 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.

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

Notes to the Financial Statements continued

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:

	2008		2007	
	Average	**Closing**	Average	Closing
Euro/sterling	**1.25**	**1.03**	1.46	1.36
US dollar/sterling	**1.84**	**1.44**	2.00	1.99

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 2008 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 2008 was a net liability of £1,264,000 (2007: net liability of £185,000) comprising assets of £nil (2007: £8,000) and liabilities of £1,264,000 (2007: £193,000) that were recognised in fair value derivatives in 2008.

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 2008			Group 2007		
	Foreign currency 000	**Contract value £000**	**Fair value £000**	Foreign currency 000	Contract value £000	Fair value £000
Sell EUR	**€4,700**	**3,835**	**4,492**	€5,100	3,590	3,761
Sell USD	**$5,100**	**2,893**	**3,500**	$5,700	2,843	2,857

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 2008 it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before tax by approximately £16,000 (2007: £19,000).

At 31 December 2008 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 £106,000 (2007: £67,000) before forward exchange contracts and £60,000 (2007: £33,000) after forward exchange contracts are included for the euro and £69,000 (2007: £52,000) for the US dollar before forward exchange contracts and £33,000 (2007: £24,000) 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 2008 to hedge the foreign currency cash flows of invoiced sales net of expected foreign expenditure. Hedging is achieved by the use of foreign currency contracts expiring in the month of expected cash flow.

21. Financial instruments continued

Fair values

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

	2008		2007	
	Carrying amount £000	**Fair value £000**	Carrying amount £000	Fair value £000
Trade and other receivables	**8,408**	**8,408**	7,343	7,343
Cash and cash equivalents	**(852)**	**(852)**	(984)	(984)
Forward exchange contracts				
– assets	**—**	**—**	8	8
– liabilities	**(1,264)**	**(1,264)**	(193)	(193)
Secured bank loans	**(300)**	**(300)**	(700)	(700)
Trade and other payables	**(3,720)**	**(3,720)**	(3,937)	(3,937)

Estimation of fair values

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

Derivatives

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

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

Carrying amounts equals the fair value.

22. Commitments

	2008 £000	2007 £000
(i) Capital contracts at the end of the financial year for which no provision has been made	**927**	334
(ii) The Group has non-cancellable operating lease rentals, which are payable as follows:		
– within one year	**70**	47
– between two and five years	**174**	148

During the year ended 31 December 2008 £67,000 was recognised as an expense in the Income Statement in respect of operating leases (2007: £63,000).

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 have been agreed with the Trustees at £50,000 per month. Following the triennial review in April 2008 the Company agreed with the Trustees to increase these contributions to £55,000 per month from January 2009 to June 2016.

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

	As at 31 December 2008	As at 31 December 2007	As at 31 December 2006
Discount rate	**6.30%**	5.90%	5.10%
Expected return on plan assets	**5.76%**	6.62%	6.58%
Rate of salary increase	**n/a**	n/a	n/a
Rate of increase to pensions in payment	**3.00%**	3.30%	3.00%
Rate of inflation	**3.10%**	3.40%	3.10%
Mortality assumption	**PCA00 MC**	PA92 MC	90% of PA92 MC
Life expectancy from age 65 of current male pensioners	**21.6 years**	22.5 years	20.7 years
Commutation assumption	**75% of members take maximum cash**	No allowance	No allowance

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 2008 could expect to live, on average, until age 87. A 5% change in life expectancy would increase/decrease the pension scheme's IAS 19 liability by approximately £0.6m (£0.4m after deferred tax), all other things being equal.

In 2008 an allowance has been made for commutation to be consistent with the assumption used for the triennial actuarial valuation in April 2008.

Notes to the Financial Statements continued

23. Employee benefits continued

The overall expected return on assets assumption of 5.76% as at 31 December 2008 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;
• Bonds – current market yields; and
• Cash - based on the Bank of England base rate.

Present value of scheme assets:

	Year ended 31 December 2008		Year ended 31 December 2007		Year ended 31 December 2006	
	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	**7.0%**	**9,298**	7.1%	13,458	7.1%	12,402
Bonds	**3.8%**	**3,154**	4.6%	2,431	4.6%	2,437
Other	**2.0%**	**1,417**	5.5%	1,353	5.0%	1,022
		13,869		17,242		15,861

Present value of defined obligation:

Funded plans	**17,396**	19,707
Total	**17,396**	19,707
Deficit in the scheme	**(3,527)**	(2,465)
Related deferred tax asset	**988**	690
Net pension liability	**(2,539)**	(1,775)

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

Benefit obligation at beginning of year	**19,707**	20,101
Service cost	**—**	—
Interest cost	**1,142**	1,012
Actuarial gains	**(2,752)**	(875)
Benefits paid	**(701)**	(531)
Past service costs	**—**	—
Benefit obligation at end of year	**17,396**	19,707

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

Fair value of plan assets at beginning of year	**17,242**	15,861
Expected return on plan assets	**1,138**	1,046
Actuarial (losses)/gain	**(4,410)**	266
Contributions by employer	**600**	600
Benefits paid	**(701)**	(531)
Fair value of plan assets at end of year	**13,869**	17,242

The amounts recognised in the Income Statement are:

Interest on obligation	**1,142**	1,012
Expected return on plan assets	**(1,138)**	(1,046)
Past service cost	**—**	—
Total expense/(income)	**4**	(34)

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

	Group and Company	
	2008 £000	2007 £000
Cost of sales	**—**	—
Financial income	**(1,138)**	(1,046)
Finance costs	**1,142**	1,012
	4	(34)

23. Employee benefits continued

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

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Balance as at 1 January	**1,789**	648	222	264	—
Actuarial (losses)/gains	**(1,658)**	1,141	426	(42)	264
Balance as at 31 December	**131**	1,789	648	222	264

History of scheme assets, obligations and experience adjustments

	As at 31 December 2008	As at 31 December 2007	As at 31 December 2006	As at 31 December 2005	As at 31 December 2004
Present value of defined benefit obligation	**17,396**	19,707	20,101	19,479	18,721
Fair value of scheme assets	**13,869**	17,242	15,861	14,259	11,529
Deficit in the scheme	**(3,527)**	(2,465)	(4,240)	(5,220)	(7,192)
Experience adjustments arising on scheme liabilities	**(2,752)**	(875)	233	1,621	93
Experience item as a percentage of scheme liabilities	**(16)%**	(4)%	1%	8%	0%
Experience adjustments arising on scheme assets	**(4,410)**	266	659	1,579	299
Experience item as a percentage of scheme assets	**(32)%**	2%	4%	11%	3%

Other pension schemes

On 1 January 2006 a separate stakeholder scheme was set up for those employees who were originally in the closed defined benefit scheme. The contributions paid by the Company in 2008 were £505,000 (2007: £527,000).

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 2008 were £51,000 (2007: £27,000).

For US based employees Zotefoams Inc. operates a 401(k) plan. The contributions paid by Zotefoams Inc. in 2008 were $80,000 (2007: $76,000).

24. Share-based payments

The Company has share option schemes that entitles senior management personnel to purchase shares in the Company. Options are exercisable at a price equal to the average quoted closing market price of the Company's shares on the 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.

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

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

	2008		2007	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the period	**1,179,154**	**76.4**	2,268,155	74.9
Forfeited during the period	**(355,356)**	**78.1**	(698,186)	72.5
Cancelled during the period	**Nil**	**—**	(135,330)	88.7
Exercised during the period	**Nil**	**—**	(279,014)	72.5
Granted during the period	**281,160**	**106.7**	23,529	127.5
Outstanding at the end of the period	**1,104,958**	**83.6**	1,179,154	76.4
Exercisable at the end of the period	**837,856**	**76.2**	152,834	72.5

The options outstanding at 31 December 2008 have an exercise price of between 72.5p and 106.7p and a weighted contractual life of seven years.

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

Notes to the Financial Statements continued

24. Share-based payments continued

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

	2008 Number of share options	2008 Weighted average exercise price (p)	2007 Number of share options	2007 Weighted average exercise price (p)
Outstanding at beginning of the period	**306,959**	**—**	—	—
Granted during the period	**198,651**	**—**	306,959	—
Outstanding at the end of the period	**505,610**	**—**	306,959	—
Exercisable at the end of the period	**—**	**—**	—	—

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

	2008 Number of share options	2008 Weighted average exercise price (p)	2007 Number of share options	2007 Weighted average exercise price (p)
Outstanding at beginning of the period	**—**	**—**	—	—
Granted during the period	**34,632**	**—**	—	—
Outstanding at the end of the period	**34,632**	**—**	—	—
Exercisable at the end of the period	**—**	**—**	—	—

Fair value of share options and assumptions

The expected volatility is based on historic volatility since 1995.

	22 December 2005	10 May 2007	**20 March 2008**	**12 August 2008**
Share price (p)	75.5	127.5	**98.7**	**106.7**
Exercise price (p)	77.0	nil	**nil**	**106.7**
Expected volatility	28%	30%	**30%**	**30%**
Option life	five years	five years	**five years**	**five years**
Expected dividends (p) (assumed to be increasing at 2.5% p.a.)	4.5	nil	**nil**	**4.5**
Risk-free interest rate (based on national government bonds)	4.8%	4.8%	**4.7%**	**4.6%**
Fair value at grant date (p)	15.8	127.5	**98.7**	**23.3**

The share option awards are granted under a service condition and a performance condition. There are no market conditions associated with the share options. The 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 2008 £000	Group and Company 2007 £000
Within administrative expenses	**165**	91
Element of the above relating to Directors of Zotefoams plc	**87**	48

25. Related parties

Directors

The Directors of the Company as at 31 December 2008 and their immediate relatives control 0.6% of the voting shares of the Company. Details of Directors' pay and remuneration are given in the Directors' Remuneration Report on page 24. The Directors are considered to be the only key management personnel.

Subsidiaries

Zotefoams plc owns 100% of the shares of Zotefoams 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 notes 1b and 1n. and in transactions between Zotefoams plc and these subsidiaries are as follows:

Income Statement

	Sales to 2008 £000	Sales to 2007 £000	Service fees to 2008 £000	Service fees to 2007 £000	Interest charged to 2008 £000	Interest charged to 2007 £000	Interest charged from 2008 £000	Interest charged from 2007 £000
Zotefoams Inc.	**3,405**	4,323	**72**	71	**136**	234	**21**	14

25. Related parties continued

Balance Sheet

	Loan owed to		Loan owed by		Payables owed to		Receivables owed by		Investment in	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Zotefoams Inc.*	**1,217**	653	**4,521**	3,265	**—**	—	**884**	1,655	**—**	—
Zotefoams International	**—**	—	**—**	—	**—**	—	**—**	—	**3,863**	2,357
Zotefoams EBT	**—**	—	**—**	27	**—**	27	**—**	—	**—**	—

*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:

		Service fees from Zotefoams plc		Distribution received by Zotefoams Inc.	
	Note	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Income Statement		**20**	—	**—**	—
Balance Sheet	12	**—**	—	**(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 the impact of profits 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 2009 Annual General Meeting

Notice is hereby given that the Annual General Meeting of Zotefoams plc (the "Company") will be held at the offices of Zotefoams plc, 675 Mitcham Road, Croydon CR9 3AL on 7 May 2009 at 10am for the following purposes:

Ordinary business
To consider and, if thought fit, pass resolutions numbered 1 to 7 below as ordinary resolutions:

1. To receive and adopt the audited accounts and the Directors' and Auditor's Report for the year ended 31 December 2008.

2. To receive and approve the Directors' Remuneration Report for the year ended 31 December 2008.

3. To declare a final dividend for the year ended 31 December 2008 of 3.0p per ordinary share, such dividend to be payable on 21 May 2009 to shareholders on the register at the close of business on 24 April 2009.

4. To re-elect N G Howard as a Director who retires by rotation.

5. To re-elect C G Hurst as a Director who retires by rotation.

6. That KPMG Audit Plc be and are hereby re-appointed as auditor of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting at which accounts are laid before the Company and that the Directors be and are hereby authorised to fix their remuneration.

7. That the Board be and is hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Companies Act 1985) of the Company up to an aggregate nominal amount of £1,259,356 to such persons and on such terms as it thinks fit provided that this authority shall expire on the date of the next Annual General Meeting after the passing of this resolution or 15 months after the passing of this resolution (whichever shall be earlier) save that the Company may before such expiry make such an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired, such authority to be in substitution for any existing authorities conferred on the Board pursuant to Section 80 of the Companies Act 1985.

Special business
To consider and, if thought fit, to pass resolutions 8, 9, 10 and 11 below as special resolutions:

8. That with effect from 00.01am on 3 August 2009 the Company may call general meetings, other than Annual General Meetings, on notice of not less than 14 clear days' notice, notwithstanding the provisions of the Shareholder Rights Directive (2007/36/EC).

9. That subject to the passing of resolution 7 the Board be and is hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94(2) to Section 94 (3A) of the said Act) for cash pursuant to the authority conferred by the previous resolution as if Section 89(1) of the said Act did not apply to any such allotment provided that this power shall be limited:

   (a) to the allotment of equity securities in connection with an issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as maybe) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the Directors may consider appropriate to deal with fractional entitlements or legal or practical difficulties under the laws, rules or regulations of any jurisdiction, stock exchange or other regulatory body whatsoever; and

   (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) for cash of equity securities up to an aggregate nominal value of £94,451 and shall expire on the date of the next Annual General Meeting of the Company after the passing of this resolution or 15 months after the passing of this resolution (whichever shall be earlier) save that the Company may before expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired, such authority to be in substitution for any existing authorities conferred on the Board pursuant to Section 95 of the Companies Act 1985.

   This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of Section 94 (3A) of the said Act as if the words "pursuant to the authority conferred by the previous resolution" were omitted.

10. That the Company be and is hereby generally and unconditionally authorised for the purposes of Section 166 of the Companies Act 1985 to make one or more market purchases (within the meaning of Section 163(3) of the said Act) on the London Stock Exchange plc of ordinary shares of 5p each in the capital of the Company provided that:

    (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 3,778,070 (representing 10% of the Company's issued ordinary share capital);

    (b) the minimum price which may be paid for such shares is 5p per share (exclusive of any applicable taxes and expenses);

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

Special business continued

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

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

11. That the Articles of Association produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be adopted as the Articles of Association of the Company from the conclusion of the 2009 Annual General Meeting in substitution for, and to the exclusion of, the existing Articles of Association.

By order of the Board

C G Hurst
Company Secretary
Zotefoams plc

Registered office
675 Mitcham Road
Croydon CR9 3AL

9 March 2009

Notes

(i) Shareholders are entitled to attend and vote at this meeting and may appoint one or more proxies to attend and exercise any or all of their rights on their behalf at the meeting provided that each proxy is appointed to exercise rights attached to a different share or shares held by that shareholder. A proxy need not be a member of the Company. In the case of any joint holders of a share, the vote of the senior (whether in person or by proxy) shall be accepted to the exclusion of the votes of the other joint holders. A form of proxy is enclosed for the use of members and must reach the office of the Registrars of the Company not less than 48 hours prior to the start of the meeting. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this note. Please read note (iii) below.

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

(iii) If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") you may have a right under an agreement between you and the member of the Company who has nominated you to have information rights (the "Relevant Member") to be appointed or to have someone else appointed as a proxy for the Meeting. If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights. Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

(iv) Copies of the following will be available for inspection at the registered office of the Company, 675 Mitcham Road, Croydon CR9 3AL during normal business hours from the date of the above notice until the date of the Annual General Meeting and at the place of the meeting for 15 minutes prior to and until the termination of the Meeting. Document (e) will also be available for inspection at Lawrence Graham LLP, 4 More London Riverside, London, SE1 2AU from the date of this notice, and at the Company's registered office above:

(a) The register of Directors' share interests; and
(b) Copies of Directors' service contracts; and
(c) Copies of Directors' Deeds of Indemnity; and
(d) Letters of Appointment for Non-Executive Directors; and
(e) New Articles of Association

(v) Only those members registered in the register of members of the Company as at 10am on 5 May 2009 will be entitled to attend or vote at the meeting in respect of the number of ordinary shares of 5p registered in their respective names at that time. Changes to entries on the register after 10am on 5 May 2009 will be disregarded in determining the rights of any person to attend or vote at the meeting.

(vi) As at 10am on 9 March 2009, the Company's issued share capital comprised 37,780,706 ordinary shares of 5p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 10am on 9 March 2009 is 37,780,706.

(vii) 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 Annual General Meeting; 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 Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

(viii) In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

Five Year Trading Summary

	IFRS 2008 £m	IFRS 2007 £m	IFRS 2006 £m	IFRS 2005 £m	IFRS 2004 £m
Turnover	**34.8**	31.6	30.1	28.0	25.2
Operating profit (excluding exceptional items)	**4.0**	3.5	2.8	2.0	1.6
Profit before tax (excluding exceptional items)	**3.9**	3.4	2.7	1.8	1.3
Profit before tax (including exceptional items)	**3.9**	3.4	1.6	3.3	1.3
Profit after tax	**3.0**	2.9	1.2	2.4	1.2
Capital expenditure	**1.4**	2.7	2.6	1.1	1.3
Cash generated from the operations	**5.8**	4.8	4.7	4.1	5.3
Dividends per ordinary share (p)	**4.5**	4.5	4.5	4.5	4.5
Basic earnings per share excluding exceptional items (p)	**8.3**	8.0	5.4	3.5	3.2
Basic earnings per share including exceptional items (p)	**8.3**	8.0	3.4	6.7	3.2

The Group converted to IFRS from UK GAAP for 2004.

Financial Calendar

AGM	7 May 2009
Payment of final dividend	21 May 2009 to shareholders on the register at the close of business on 24 April 2009
Announcement of 2009 interim results	August 2009
Payment of interim dividend	October 2009
Announcement of 2009 results	March 2010

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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