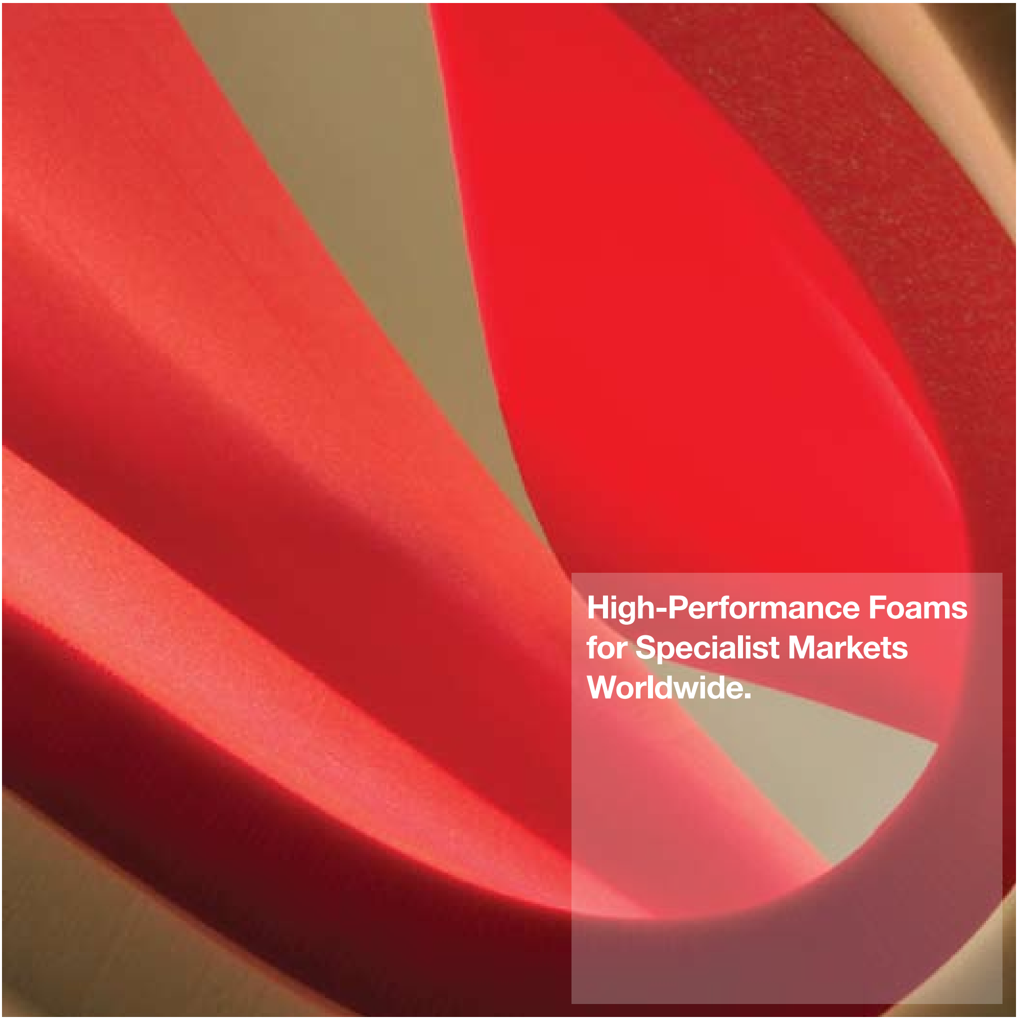
ZOTEFOAMS

Interim Report 2011



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.

Overview

Financial Statements

Highlights

- **Like-for-like revenue up 10% to £21.69 million (H1 2010: £19.64 million)[1]**
- **Profit before tax increased by 12% to £3.28 million (2010: £2.92 million)**
- **Interim dividend increased to 1.6 pence per share (2010: 1.5 pence)**
- **Ownership of MuCell Extrusion LLC ('MEL') increased to 100%**
- **Successful placement of 1.5 million shares (additional 4% of share capital) at 150 pence per share**
- **Net cash of £2.0 million at 30 June 2011 (£0.2 million at 30 June 2010)[2]**

1 Excluding the consolidation of MEL.
2 Net cash/net debt are defined as cash less bank overdrafts and other bank borrowings.

Commenting on the results, Nigel Howard, Chairman said:

'The first half of 2011 was a solid period for Zotefoams with strong increases in Polyolefin Foam sales volumes in developed markets driving a 12% rise in pre-tax profit. During the period we came under significant input cost pressures and experienced supply disruptions. I am therefore particularly pleased that we have been able to maintain our first half 17% operating margin in Polyolefins through a combination of price increases and volume growth. We continue our strategy of exploiting our unique manufacturing process in the development of High-Performance Polymers ('HPP'). These products are at an early stage of commercial development and we are encouraged by their development. Finally we are delighted to have brought MuCell Extrusion LLC fully into the Group and are looking to invest further resource in support of our plans for growing this business.'

Chairman's Statement
Nigel Howard

During the first half of 2011, we have seen strong overall trading and a positive impact from the integration of MuCell Extrusion LLC.

Introduction

I am pleased to report that in the first six months of 2011 Zotefoams has grown revenue strongly and increased profit before tax by 12% to £3.28 million. Basic earnings per share increased to 6.6 pence (2010: 6.0 pence) and the Board has decided to increase the interim dividend to 1.6 pence (2010: 1.5 pence). We retain a strong balance sheet with net cash of £2.01 million at 30 June 2011 (30 June 2010: £0.20 million). On 30 March 2011, we completed the purchase of the remaining 70% interest in MEL following our initial purchase of a 30% interest in July 2008. The MuCell® foaming method is aligned with global trends of environmentally friendly technology and reduced material content. The integration of MEL is now largely complete. We anticipate that this business will benefit from further investment by Zotefoams and generate an additional growth opportunity within our foam technology portfolio.

Financial and Operational Review

Polyolefin Foams

Sales increased strongly during the period, with overall sales up 11% at £20.73 million (2010: £18.67 million). Sales were up by 18% in the UK and by approximately 11% in Europe and 9% in North America on a constant currency basis. Asian sales were down by approximately 6%, in constant currency, partly due to the disruption caused by the tsunami in Japan and to the phasing of projects. Global market demand for polymer products has been high in the period and this has led to significant increases in raw materials prices. In addition, interruptions in the supply of bulk polymer and specialty additives have increased operating costs and impacted our delivery performance. The average price of low density polyethylene ('LDPE'), our main raw material, increased by 25% compared to the first half of 2010 and prices of other bulk polymers have risen by similar levels. We implemented sales price increases across all markets at various times during the period and this, along with the strong increase in sales volumes, helped maintain our operating margin at 17% (2010: 17%) of sales for the first half. Overall operating profit from this segment rose to £3.50 million (2010: £3.19 million).

High-Performance Polymers ('HPP') Foams

Our strategy is to exploit our unique manufacturing process in the development of HPP foams. Sales in this segment at £0.97 million were similar to levels achieved in the first half of 2010. Our ZOTEK® F fluoropolymer foams, which generated sales of £0.67 million (2010: £0.76 million), remains the largest product group in the HPP segment. ZOTEK® F is sold mainly into the aviation market in relatively large shipments which affects the phasing and predictability of sales in a given period, although overall the number of projects involving these materials continue to grow. Sales of T-Tubes®, our advanced insulation product, increased by 28% to £0.24 million and now comprise approximately 25% of segment sales. Both T-Tubes® and ZOTEK® F fluoropolymer foams generated profits in the period. We continue to invest significantly in research and development, marketing resource and increasing production scale of these and other products in our HPP family. ZOTEK® N nylon foams are currently selling in low volumes but are being evaluated for a number of applications and we are building a good pipeline of medium-term opportunities for these products. During the period we made our first sales of Pebaxfoam® to the sports and leisure industry where its high energy-return properties are of particular interest. We also made our first sales of microZOTE® olefinic roll foams, using technology licensed from our MEL subsidiary. All of these products are at an early stage, with development and commercial costs significantly exceeding revenues at this time. Overall, the operating loss for this segment was £0.48 million (2010: £0.24 million) of which amortisation and depreciation costs totalled £0.13 million.

MuCell Extrusion LLC ('MEL')

On 30 March 2011 we purchased the remaining 70% shareholding in MEL that we did not already own together with further patent rights for a total cash consideration of \$7.50 million. \$4.00 million of this sum was paid at the time of acquisition and the remaining payments of \$2.00 million and \$1.50 million are payable on or before 20 January 2012 and 30 July 2012 respectively. Zotefoams Inc. has granted to the former owner of these shares security over all of the intellectual property of MEL until the deferred consideration is settled. This price represents a reduction of \$2.38 million from the original option price offset by an additional \$0.50 million for the acquisition of further patents. The acquisition of those patents has been accounted for separate to the business combination as a 2011 capital investment.

The reduction, which has a cash benefit to the Group, has resulted in a non-cash prior period adjustment to the goodwill associated with the deemed acquisition of MEL, the non-controlling interest and the exceptional (non-cash) profit arising from the deemed disposal of the associate interest in MEL on 1 July 2010, as reflected in the Company's accounts for the 12 months ended 31 December 2010.

As indicated in its acquisition announcement on 31 March 2011 the reduction in consideration has led the Board to review the accounting for the acquisition and, in particular, whether the hindsight provisions of IFRS 3 apply. The Board has concluded that the exercise of the option provides new information about the acquisition date fair values that formed part of the original acquisition accounting. Consequently the Board has applied a Hindsight Period Adjustment in preparing these interim financial statements and has restated the 2010 comparative results to reflect this change. The impact of this Hindsight Period Adjustment is to reduce the goodwill previously recognised from £3.60 million to £2.01 million, reduce the non-controlling interest previously recognised from £5.38 million to £4.27 million and reduce the exceptional profit previously recognised from £1.10 million to £0.62 million. £0.06 million of legal and other external costs were incurred on the acquisition and these have been taken as a one-off cost in the Income Statement for the six months ended 30 June 2011.

We have now largely completed the process of moving this business from its previous owner's premises to a separate location nearby and transferring its systems and administrative support to the Zotefoams Group. MEL licenses microcellular foam technology and sells related machinery. The business has a stronger first half of the year due to the profile of its licence agreements. Sales for the first six months of 2011 at \$1.39 million were similar to that achieved in the same period last year. However, EBITDA increased by 32% to \$0.82 million due to a change in the mix of its sales with an increase in licence and royalty revenue and a decrease in lower margin equipment sales which are less regular in nature. We are planning to invest further resource in MEL to support our medium term plans for growing this business.

Chairman's Statement continued

Tax and Cash Flow

The Group's effective tax rate for the period was 22% (2010: 24%) mainly due to the benefit of historic tax losses in North America. EBITDA grew to £5.10 million (2010: £4.54 million). There was a £1.72 million increase in working capital reflecting the higher sales in the period and cash generated from operations totalled £3.10 million (2010: £2.81 million). Capital expenditure was £0.72 million (2010: £0.87 million) and tax paid was £0.55 million (2010: £0.48 million). On 30 March 2011, the Group acquired the remaining shares of MEL that it did not already own and additional patents at an initial cost of £2.49 million. This was largely funded by way of a placing of 1.53 million shares representing c.4% of the share capital of Zotefoams plc which raised net proceeds of £2.23 million. Net cash held increased by £0.15 million from £1.86 million at 31 December 2010 to £2.01 million at 30 June 2011 (30 June 2010: £0.20 million).

Board

We have appointed two additional independent non-executive directors, Marie-Louise Clayton and Alex Walker, effective from 1 July 2011. They will both be members of the Audit, Nominations and Remuneration Committees. Marie-Louise Clayton was previously a non-executive director and Chair of the Audit Committee at Forth Ports plc and is currently a non-executive director of Geoffrey Osborne Ltd. She was Group Finance Director of Venture Production plc, a FTSE 250 company in the oil and gas sector and has held senior positions in Alstom and GEC. Marie-Louise is a qualified accountant. Alex Walker is currently Chairman of Spirent Communications plc and prior to that was Chief Executive of Yule Catto & Co plc where he spent most of his career. He has also been a non-executive director of Rotork plc and Chair of the Remuneration Committees at both Spirent Communications plc and Rotork plc. Marie-Louise and Alex's broad business experience will strengthen and complement the skill base on the Board. We look forward to their contribution in developing the Group's business.

Employees

On behalf of the Board I am pleased to welcome the employees of MEL into the Group and would like to thank all of our employees whose talent, dedication and effort have contributed to the success of Zotefoams.

Dividend

The Directors have declared an increased dividend of 1.6 pence per share (2010: 1.5 pence). The dividend will be paid on 13 October 2011 to shareholders on the Company's register at the close of business on 16 September 2011.

Risks and Uncertainties

Zotefoams' business and share price may be affected by a number of risks, not all of which are within our control. The process Zotefoams has in place for identifying, assessing and managing risks is set out in the Corporate Governance Report on page 33 of the 2010 Annual Report and Accounts. The specific principal risks (which could impact Zotefoams' revenues, profits and reputation), and relevant mitigating factors, as currently identified by Zotefoams' risk management process, have not changed since the publication of the last Annual Report and detailed explanations of these can be found on page 18 of the 2010 Annual Report and Accounts. Broadly, these risks include operational disruption, supply chain disruption, technological change and competitor activity, foreign exchange, financing and pensions liabilities.

Outlook

During the first half of 2011, traditionally our more profitable trading period, we have seen strong overall trading in our business and a positive impact from the integration of MEL. Entering the second six months of 2011 we have a good forward order book, a strong portfolio of opportunities across diverse markets and a robust cash position. The high raw material prices and supply disruptions which affected us in the first half of the year appear to be easing. Capital expenditure was £0.72 million in the first half of the year due to the phasing of projects and we expect this level to increase in the second half of the year. MEL has historically made most of its profit in the first half of the year and we expect this pattern to continue. We enter the second half of the year mindful of macroeconomic conditions but confident in the position of Zotefoams within the markets in which we operate.

N G Howard
Chairman
1 August 2011

ZOTEK®, AZOTE® and microZOTE® are registered trademarks of Zotefoams plc. T-Tubes® is a registered trademark of UFP Technologies Inc. MuCell® is a registered trademark of Trexel Inc. Pebax® and Pebaxfoam® are registered trademarks of Arkema.

Responsibility Statement of the Directors in Respect of the Interim Financial Report

We confirm that to the best of our knowledge:

(a) the condensed consolidated set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R of the Disclosure and Transparency Rules (disclosure of related party transactions and changes therein).

By order of the Board

N G Howard	**C G Hurst**
Chairman	Finance Director
1 August 2011	1 August 2011

Consolidated Income Statement
for the six months ended 30 June 2011

	Note	**Six months ended 30 June 2011 £000**	Six months ended 30 June 2010 £000	Year ended 31 December 2010 Restated (see note 5) Pre-exceptional items £000	Exceptional items £000	Post-exceptional items £000
Revenue	4	**22,564**	19,641	39,879	–	39,879
Cost of sales		**(15,637)**	(13,252)	(28,430)	–	(28,430)
Gross profit		**6,927**	6,389	11,449	–	11,449
Distribution costs		**(1,683)**	(1,472)	(3,220)	–	(3,220)
Administrative expenses		**(1,904)**	(1,966)	(3,403)	–	(3,403)
Operating profit	4	**3,340**	2,951	4,826	–	4,826
Financial income		**566**	554	1,116	–	1,116
Finance costs		**(629)**	(673)	(1,329)	–	(1,329)
Deemed disposal of associate interest		**–**	–	–	623	623
Share of profit from associate		**–**	88	88	–	88
Profit before tax		**3,277**	2,920	4,701	623	5,324
Taxation	6	**(708)**	(712)	(995)	–	(995)
Profit for the year		**2,569**	2,208	3,706	623	4,329
Attributable to:						
Equity holders of the parent		**2,512**	2,208	3,729	623	4,352
Non-controlling interest		**57**	–	(23)	–	(23)
Total		**2,569**	2,208	3,706	623	4,329
Earnings per share						
Basic (p)	8	**6.6**	6.0			11.8
Diluted (p)	8	**6.5**	5.9			11.5

Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2011

	Six months ended 30 June 2011 £000	Six months ended 30 June 2010 £000	Year ended 31 December 2010 Restated (see note 5) £000
Profit for the period	**2,569**	2,208	4,329
Other comprehensive income			
Foreign exchange translation differences on investment in foreign subsidiary/associate	**(364)**	756	(402)
Effective portion of changes in fair value of cash flow hedges net of recycling	**(15)**	161	(33)
Actuarial gains on defined benefit schemes	**–**	–	308
Tax relating to components of other comprehensive income	**2**	(45)	(77)
Other comprehensive (expenditure)/income for the period, net of tax	**(377)**	872	(204)
Total comprehensive income for the period	**2,192**	3,080	4,125
Attributable to equity holders of the parent	**2,076**	3,080	4,369
Attributable to non-controlling interest	**116**	–	(244)
Total comprehensive income for the period	**2,192**	3,080	4,125

Consolidated Statement of Financial Position
as at 30 June 2011

	30 June 2011 £000	30 June 2010 £000	31 December 2010 Restated (see note 5) £000
Non-current assets			
Property, plant and equipment	**24,831**	25,528	25,597
Intangible assets	**5,703**	50	5,585
Investment in associate	**–**	1,816	–
Deferred tax assets	**395**	263	352
Total non-current assets	**30,929**	27,657	31,534
Current assets			
Inventories	**4,901**	4,696	4,134
Trade and other receivables	**11,632**	9,811	9,463
Cash and cash equivalents	**3,820**	2,669	4,716
Total current assets	**20,353**	17,176	18,313
Total assets	**51,282**	44,833	49,847
Current liabilities			
Interest-bearing loans and borrowings	**(660)**	(660)	(660)
Bank overdraft	**–**	–	(711)
Tax payable	**(882)**	(786)	(709)
Trade and other payables	**(8,585)**	(4,770)	(4,989)
Total current liabilities	**(10,127)**	(6,216)	(7,069)
Non-current liabilities			
Interest-bearing loans and borrowings	**(1,148)**	(1,806)	(1,488)
Employee benefits	**(4,681)**	(5,544)	(4,959)
Deferred tax liabilities	**(1,354)**	(1,418)	(1,317)
Total non-current liabilities	**(7,183)**	(8,768)	(7,764)
Total liabilities	**(17,310)**	(14,984)	(14,833)
Total net assets	**33,972**	29,849	35,014
Equity			
Issued share capital	**1,992**	1,915	1,915
Own shares held	**(57)**	(73)	(69)
Share premium	**16,090**	13,941	13,941
Capital redemption reserve	**15**	15	15
Translation reserve	**436**	1,796	859
Hedging reserve	**(84)**	125	(69)
Retained earnings	**15,580**	12,130	14,155
Total equity attributable to the equity holders of the parent	**33,972**	29,849	30,747
Non-controlling interest	**–**	–	4,267
Total equity	**33,972**	29,849	35,014

Consolidated Statement of Cash Flows

for the six months ended 30 June 2011

	Six months ended 30 June 2011 £000	Six months ended 30 June 2010 £000	Year ended 31 December 2010 Restated (see note 5) £000
Cash flows from operating activities:			
Profit for the period	**2,569**	2,208	4,329
Adjustments for:			
Depreciation, amortisation and impairment	**1,758**	1,589	3,260
Gain on deemed sale of interest in MEL	**–**	–	(623)
Loss on sale of plant and equipment	**–**	–	10
Financial income	**(566)**	(554)	(1,116)
Finance costs	**629**	673	1,329
Share of income from associate	**–**	(88)	(88)
Equity-settled share-based payments	**57**	72	170
Taxation	**708**	712	995
Operating profit before changes in working capital and provisions	**5,155**	4,612	8,266
Increase in trade and other receivables	**(2,206)**	(1,756)	(1,314)
(Increase)/decrease in inventories	**(788)**	(251)	312
Increase in trade and other payables	**1,271**	534	622
Decrease in provisions and employee benefits	**(330)**	(330)	(660)
Cash generated from operations	**3,102**	2,809	7,226
Interest paid	**(11)**	(31)	(83)
Tax paid	**(549)**	(480)	(986)
Net cash from operating activities	**2,542**	2,298	6,157
Interest received	**–**	2	16
Acquisition of property, plant and equipment	**(723)**	(874)	(2,668)
Proceeds from disposal of plant and equipment	**–**	–	12
Distribution from associate	**–**	81	82
Net cash used in investing activities	**(723)**	(791)	(2,558)
Proceeds from issue of share capital	**2,328**	307	430
Repurchase of own shares	**(75)**	(212)	(334)
Repayment of borrowings	**(330)**	(328)	(660)
Cash deemed to have been acquired	**–**	–	332
Acquisition of subsidiary	**(2,179)**	–	–
Acquisition of patents	**(311)**	–	–
Distribution by subsidiary to non-controlling interest	**(25)**	–	(134)
Dividends paid	**(1,216)**	(1,100)	(1,653)
Net cash used from financing activities	**(1,808)**	(1,333)	(2,019)
Net increase in cash and cash equivalents	**11**	174	1,580
Cash and cash equivalents at 1 January	**4,005**	2,364	2,364
Effect of exchange rate fluctuations on cash held	**(196)**	131	61
Cash and cash equivalents at the end of period	**3,820**	2,669	4,005

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

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2011

	Share capital £000	Own shares held £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Hedging reserve £000	Retained earnings £000	Total £000	Non-controlling interest £000	Total equity £000
Balance at 1 January 2011	1,915	(69)	13,941	15	859	(69)	14,630	31,222	5,375	36,597
Hindsight Period Adjustment (see note 5)	–	–	–	–	–	–	(475)	(475)	(1,108)	(1,583)
Balance at 1 January 2011 restated	1,915	(69)	13,941	15	859	(69)	14,155	30,747	4,267	35,014
Shares issued	77	14	2,149	–	–	–	88	2,328	–	2,328
Shares acquired	–	(2)	–	–	–	–	(72)	(74)	–	(74)
Total recognised income and expense	–	–	–	–	(423)	(15)	2,514	2,076	116	2,192
Equity-settled share-based payment transactions net of tax	–	–	–	–	–	–	111	111	–	111
Dividends	–	–	–	–	–	–	(1,216)	(1,216)	(25)	(1,241)
Acquisition adjustment	–	–	–	–	–	–	–	–	(4,358)	(4,358)
Balance at 30 June 2011	**1,992**	**(57)**	**16,090**	**15**	**436**	**(84)**	**15,580**	**33,972**	**–**	**33,972**

During the six month period ending 30 June 2011, 149,395 shares vested. 271,867 shares were issued from the Zotefoams Employee Benefit Trust ('EBT') following the exercise of these and previous vested options and 49,245 shares were acquired by the EBT to meet the exercise of options in the future.

On 31 March 2011 the Company placed 1,534,219 new Ordinary Shares at a price of 150 pence per new Ordinary Share realising net proceeds of £2.226 million.

	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 2010	1,915	(95)	13,941	15	1,040	(36)	10,902	27,682
Shares acquired	–	31	–	–	–	–	286	317
Shares issued	–	(9)	–	–	–	–	(203)	(212)
Total recognised income and expense	–	–	–	–	756	161	2,163	3,080
Equity-settled share-based payment transactions net of tax	–	–	–	–	–	–	82	82
Dividends	–	–	–	–	–	–	(1,100)	(1,100)
Balance at 30 June 2010	1,915	(73)	13,941	15	1,796	125	12,130	29,849

Notes to the Interim Financial Statements

for the six months ended 30 June 2011

1. Basis of Preparation

This condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

As required by the Disclosure and Transparency Rules of the Financial Services Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2010. Those consolidated financial statements were prepared in accordance with IFRSs as adopted by the EU.

The condensed set of interim financial statements for the period ended 30 June 2011 is unaudited but has been reviewed by the Company's auditor. The prior year comparatives are derived from audited financial information for Zotefoams plc as set out in the Annual Report for the year ended 31 December 2010 restated for a Hindsight Period Adjustment as described in note 5 and the unaudited financial information in the interim financial statements for the period ended 30 June 2010. The Independent Review Report to Zotefoams plc from the independent auditor is set out at the end of this document.

The comparative figures for the financial year ended 31 December 2010 are not the Company's statutory accounts for that financial year and have been restated for the Hindsight Period Adjustment noted in note 5. Those accounts, which do not include the Hindsight Period Adjustment as described in note 5 have been reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

There were no significant changes to the pension scheme or significant changes to market conditions during the period and therefore the Company did not update its actuarial valuation during this period. The Income Statement charge is based on the set of assumptions laid out in the consolidated statements for the year ended 31 December 2010.

2. Cyclical Nature of Business

Zotefoams traditionally makes more profit in the first six months of the year. This cyclical nature of the business can be attributed to a number of factors, namely:

- Reduced sales in second half of year due to customer holiday periods and factory shutdowns in August and December.
- Timing of maintenance/servicing cost which is concentrated around shutdown periods.

However, the Company is also subject to a number of other factors such as customer demand which can affect this cyclicality.

The Company's subsidiary, MEL, has a stronger first six months of the calendar year due to the profile of its licence agreements but this is also subject to a number of other factors which can affect this cyclicality including changes to its licence portfolio.

3. Estimates

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results for which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2010.

Notes to the Interim Financial Statements continued

for the six months ended 30 June 2011

4. Segment Reporting

The Group manufactures and sells high-performance foams and licenses related technology for specialist markets worldwide. Zotefoams activities are categorised as follows:

- 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 and T-Tubes® insulation both made from PVDF fluoropolymer. Other products either commercially launched or being assessed in development include foams made from polyamide (nylon) and Pebax®. Also included in this segment is our microZOTE® closed-cell roll foams. Currently developed microZOTE® products are made using polyolefin resins. However management consider the markets, products and stage of business development sufficiently different from our AZOTE® polyolefin business to classify this development as part of the HPP business segment at present.
- MEL: licenses microcellular foam technology and sells related machinery.

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

There are no transactions between reportable segments apart from the sale of minor equipment from MEL to microZOTE®, within our HPP segment.

Six months ended 30 June 2011	**Polyolefins £000**	**HPP £000**	**MEL £000**	**Consolidated £000**
Revenue	**20,727**	**966**	**871**	**22,564**
Segment profit/(loss)	**3,498**	**(481)**	**383**	**3,400**
Acquisition costs				**(60)**
Operating profit				**3,340**

Six months ended 30 June 2010	Polyolefins £000	HPP £000	MEL £000	Consolidated £000
Revenue	18,669	972	–	19,641
Operating profit/(loss)	3,191	(240)	–	2,951

5. Exceptional Items

In 2008 the Company was granted an option by Trexel Inc. to increase its shareholding in Mucell Extrusion LLC ('MEL') from 30% to 100%. The option was exercisable between 1 July 2010 and 30 June 2011 and the Company was therefore deemed to control MEL from 1 July 2010. MEL was therefore treated as a subsidiary from 1 July 2010 in the Zotefoams Group accounts. As part of the acquisition accounting for MEL on 1 July 2010 an exceptional gain of £1.10 million was recognised on the deemed disposal of the associate.

On 30 March 2011 Zotefoams Inc. completed the acquisition of the remaining 70% of MEL and acquired further patent rights for a total cash consideration of $7.50 million. $4.00 million of this consideration was paid at the time of acquisition of the 70% non-controlling interest with the remaining payments of $2.00 million and $1.50 million payable on or before 20 January 2012 and 30 July 2012 respectively. For the deferred consideration Zotefoams Inc. has granted a security interest in all of the intellectual property of MEL. This price represented a reduction of $2.38 million from the original option price offset by an additional $0.50 million for further patents acquired. The acquisition of these additional patents has been recorded in 2011 separate to the business combination.

The reduction, which has a cash benefit to the Group, has a non-cash impact on the goodwill arising on the acquisition of MEL, the non-controlling interest and the exceptional (non-cash) profit arising from the deemed disposal of the associate interest in MEL as reflected in the Company's accounts for the 12 months ended 31 December 2010.

The reduction in consideration has led the Board to review the accounting for the acquisition and, in particular, whether the hindsight provisions of IFRS 3 apply. The Board concluded that the exercise of the option provided new information about the acquisition date fair values that formed part of the original acquisition accounting. Consequently, in preparing these interim financial statements, the Board has applied a Hindsight Period Adjustment to amounts recognised on the acquisition in July 2010 and has restated the 2010 comparative results to reflect these changes. The impact of this adjustment is to reduce the previously recorded goodwill from £3.60 million to £2.01 million, reduce the previously recorded non-controlling interest recognised on acquisition from £5.38 million to £4.27 million and a reduction in the previously recorded exceptional profit from £1.10 million to £0.62 million. £0.06 million of legal and other costs were incurred on the acquisition and these have been taken as a one-off cost in the Income Statement in 2011.

The fair value assets and liabilities acquired as at 1 July 2010 were:

	£000
Property, plant and equipment	43
Intangible assets	3,988
Inventories	40
Trade receivables	263
Other receivables and prepayments	164
Cash at bank	332
Trade and other payables	(207)
Total identifiable net assets	4,623

The fair value of intangible assets has been determined by an independent valuation. These have been determined as follows:

Marketing Related Intangible Assets
Those assets deemed acquired which are primarily used in the marketing or promotion of products and services. This includes the following assets (or right to use the following assets): trademarks, trade names, service marks, collective marks, certification marks, unique trade dress and internet domain names. These were valued by means of the royalty savings (relief from royalty) method of the income approach. Employing this concept the marketing related intangible assets are valued on the basis of the incremental after tax savings accruing to the owner because they do not have to pay a royalty to someone else for its use. A 16% discount rate has been used to calculate an after tax present value. A useful economic life of 10 years has been used.

Customer Related Intangible Assets
Those assets consisting of customer lists, order or production backlogs, customer contracts and relationships and non-contractual customer relationships. These have been valued by calculating the present value of income, using a 16% discount rate, attributable to relationships with customers of the Company across the equipment and engineering business of MEL. A useful economic life of 6 years has been used.

Technology Related Intangible Assets
Those assets deemed acquired relating to innovations or technological advances. Such assets include computer software, patented and unpatented technology, databases and trade secrets. These have been valued using an income approach by calculating a present value using a 14% discount rate on the after tax cash flow derived from the licensing activity of MEL. A useful economic life of 17 years has been used.

Notes to the Interim Financial Statements continued

for the six months ended 30 June 2011

5. Exceptional Items continued

Goodwill

Goodwill recognised as a result of the acquisition is as follows:

	£000
Assumed consideration	
Price originally paid ($3.00 million) at 1 July 2010 exchange rate	1,992
Assumed purchase price for remaining 70% shareholding	6,226
Total assumed consideration	8,218
Fair value of identifiable net assets	(4,623)
Goodwill	3,595
Hindsight Period Adjustment	(1,583)
Restated Goodwill at 1 July 2010	2,012
Foreign exchange movement	(116)
Goodwill at 30 June 2011	1,896

Summary aggregated financial information on MEL

The summary aggregated income statements for MEL for the six months ending 30 June 2011 was as follows:

For the period:

100% of MEL	**Six months ended 30 June 2011 £000**
Revenue	**871**
Amortisation	**(122)**
Gain after amortisation	**383**

Impact of deemed acquisition on Group Income Statement

If the deemed acquisition of MEL had occurred on 1 January 2010 the impact on the Group Income Statement would have been as follows:

	Including MEL as a subsidiary for the full year ended 31 December 2010 £000	As reported: year ended 31 December 2010 £000
Revenue	40,796	39,879
Operating profit	5,128	4,826
Financial income	1,116	1,116
Finance costs	(1,329)	(1,329)
Share of profit from associate	–	88
Profit before tax	4,915	4,701
Taxation	(995)	(995)
Profit for the year	3,920	3,706
Non-controlling interest	(171)	23
Profit attributable to equity holders of the parent	3,749	3,729

6. Taxation

	Six months ended 30 June 2011 £000	Six months ended 30 June 2010 £000
Current tax:		
UK corporation tax	**703**	697
Foreign tax	**19**	21
	722	718
Deferred tax	**(14)**	(6)
	708	712

The Group's consolidated effective tax rate for the six months ended 30 June 2011 was 22% (2010: 24%).

7. Dividends

	Six months ended 30 June 2011 £000	Six months ended 30 June 2010 £000
Final dividend for the year ended 31 December 2010 of 3.15 pence (2009: 3.0 pence) per share	**1,216**	1,100

The final dividend for the year ended 31 December 2010 was paid on 24 May 2011.

8. Earnings Per Share

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 30 June 2011 £000	Six months ended 30 June 2010 £000
Earnings		
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	**2,512**	2,208
Earnings for the purposes of diluted earnings per share	**2,512**	2,208

Number of shares	Number	Number
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	**37,788,401**	36,602,115
Effect of dilutive potential Ordinary Shares:		
Share options and Long-Term Incentive Plans	**936,993**	1,093,053
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	**38,725,394**	37,695,168

Independent Review Report to Zotefoams plc

We have been engaged by Zotefoams plc to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cashflows, the consolidated statement of changes in equity and the related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements. This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ('the DTR') of the UK's Financial Services Authority ('the UK FSA'). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA. As disclosed in note 1, the annual financial statements of Zotefoams plc are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

Our Responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

D A Bowen
For and on behalf of:

KPMG Audit Plc
Chartered Accountants
1 Forest Gate, Brighton Road
Crawley, RH11 9PT
United Kingdom

1 August 2011

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