

Interim Report 2008

**High Performance Foams for Specialist Markets Worldwide**



# 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.

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## Front cover image

Plastazote LD30SD cell structure magnified using a Philips XL-40 scanning electron microscope at 10 micron resolution.

## Highlights

### **+16%**

Revenue increased 16% to £18.14m

### **+50%**

Profit before tax increased 50% to £2.71m

### **Net debt**

Reduced to £0.38m at 30 June 2008

### **Interim dividend**

Maintained at 1.5p per share

### **MuCell**

On 8 July 2008 Zotefoams acquired a 30% shareholding in MuCell Extrusion LLC with an option to purchase 100%

## Chairman's Statement by Nigel Howard



**Nigel Howard**  
Chairman

A handwritten signature in dark ink, appearing to read 'Nigel Howard', positioned below the printed name and title.

The business has performed well in the first six months of 2008 with strong profit growth and improved gross margins.

I am delighted to report a strong performance in the first half of 2008. For the six months ended 30 June 2008 revenues increased by 16% to £18.14 million (2007: £15.65 million) and profit before tax increased by 50% to £2.71 million (2007: £1.80 million).

Basic earnings per share increased by 24% to 5.6p (2007: 4.5p).

On 9 July 2008, we announced a strategic investment with the acquisition of a 30% holding in MuCell Extrusion LLC which has a unique extrusion-based foaming technology.

### **Financial and Operational Review**

Sales volumes for the six months to 30 June 2008 were 7% above the comparable period last year and gross margins, with the benefit of higher average selling prices in part due to favourable foreign exchange rates, increased from 28.3% to 33.0%.

The cost of LDPE (low density polyethylene), our major raw material, increased significantly above the levels experienced during the first six months of 2007 as a result of a combination of price increases and the adverse euro exchange rate. This resulted in a 27% increase in the price of these raw materials in sterling (10% in euros).

### **Polyolefin Foams**

During the period we experienced good sales growth in all of our major geographic markets despite, in some cases, adverse market conditions particularly in the automotive and construction segments. Robust performances in other application segments, particularly sports & leisure and medical, have more than offset the more cyclical sectors resulting in overall sales growth of 17% to £17.77 million (2007: £15.22 million) and operating profit growth of 51% to £3.01 million. (2007: £1.99 million).

The UK, one of our most mature markets, achieved sales growth of 2%. This growth comes from having a good understanding of development projects, often in areas where our foams are being used for the first time. Close co-operation with our direct customers and focus on service lead times, coupled with a wide product range suited to many diverse projects, is our key to success in this market.

In Continental Europe our sales growth, helped by the stronger euro, was 24% or in constant currency terms 8%. We continue to see the benefits of a directly employed and focused specialised sales team with encouraging growth in our key markets of Germany (10% in euros) and France (24% in euros).

I am pleased to report that, despite the difficult general economic conditions in North America, the investment in sales resource late in 2007 helped to deliver sales growth of 19% against a comparatively weak first six months of 2007. In Asia and the Rest of the World, where we are operating in more niche markets with specialist requirements, sales grew by 12% with projects in medical and electronics packaging being the main focus in the medium term. In both North America and Asia, the currency impact was negligible.

### **High-Performance Polymer (“HPP”) Foams**

Our strategy is to exploit our unique manufacturing process in the development of HPP foams. There are three main product lines within this category: ZOTEK® F PVDF fluoropolymer foams, ZOTEK® N polyamide (nylon) foams and T-Tubes® advanced insulation. All of these products are high-performance materials with unique features, generating long sales cycles with rigorous testing requirements. In the first six months of 2008, HPP sales were £0.37 million (2007: £0.43 million) with ZOTEK® F products for aerospace accounting for 74% of sales. The operating loss from these products during the period was £0.27 million (2007: loss of £0.15 million).

The Board sees aerospace as a key market for the future with exciting growth prospects albeit with long lead times for development projects. The recent delay to a major contract with Boeing, confirmed by our converter partner in July 2008, was the main reason for the reduction in sales compared with the previous year and it is now likely to be 2009 before significant growth from this project is realised.

Our “world first” polyamide foam launched in September 2006 was tested in a wide variety of applications, many of which required a more flexible material and one of our key challenges remains the product launch of a more suitable grade of polyamide foam where the commercial rationale is compelling.

Development of the T-Tubes® line of products, where Zotefoams is marketing and selling end product insulation direct to end users in biotech and pharmaceutical manufacturing, is progressing in line with expectations with most sales to date being for initial evaluation on small sections of plant.

### **Tax, cash flow and balance sheet**

The effective tax rate is 25% of pre-tax profit, marginally below the UK corporation tax rate. In 2007 the effective tax rate was 10% of pre-tax profits principally as a consequence of a release from the deferred tax provision in that year.

Cash generated from operations was £3.48 million (2007: £1.74 million). Capital expenditure of £0.66 million (2007: £1.48 million) was lower than the same period in the previous year due to the timing of projects, with £0.9 million of expenditure incurred in the first half of 2007 as part of the refurbishment and upgrade of a large high-pressure autoclave. Net debt as at 30 June 2008 was £0.38 million (2007: £2.52 million) leaving the balance sheet with a gearing ratio of 1%.

### **Capital investment**

We are now nearing the end of our program to upgrade our large high-pressure vessels and have commenced the refurbishment of the last of these vessels. This vessel is expected to be returned to service in early 2009 and leaves only two small vessels, representing 7% of available capacity, which are still to be refurbished.

### **Dividend**

The Directors have declared an interim dividend of 1.5p net per share (2007: 1.5p). The dividend will be paid on 29 September 2008 to shareholders on the Company's register at the close of business on 5 September 2008.

### **MuCell Extrusion LLC**

On 8 July 2008, we acquired a 30% shareholding in a joint venture, MuCell Extrusion LLC, partnering with Trexel Inc of Massachusetts, USA to exploit and develop microcellular foam technology for extrusion. The MuCell® microcellular foam technology has been successfully used for injection moulding applications for many years, establishing a global proprietary position with patents and know-how under the MuCell® brand. The purpose of the joint venture is to license this technology in extrusion applications.

MuCell Extrusion LLC owns intellectual property specific to extrusion applications that have been successfully exploited already, generating revenues from licences in fields as diverse as electronics, sealing systems and packaging. Our initial investment in MuCell Extrusion LLC is US\$3 million and we have an option to increase our ownership to 100%. The earliest this option can be exercised is July 2010 but, depending on certain performance conditions, may be exercised as late as June 2011. In addition, we have signed a licence agreement to use this technology with specific polymers and plan to install an extrusion production line in our Croydon facility and begin sales of thin-roll type foams in 2009.

### **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 31 of the 2007 Annual Report and Accounts.

The specific principal risks (which could impact Zotefoams' revenues, profits and reputation), which were faced at the time of the last Annual Report, and relevant mitigating factors, as currently identified by Zotefoams' risk management process, have not changed since the year end and detailed explanations can be found on page 16 of the 2007 Annual Report and Accounts. Broadly, these risks include operational disruption, supply chain disruption, technological change and competitor activity, foreign exchange and pensions liabilities.

The acquisition of a 30% shareholding in MuCell Extrusion LLC extends the range of Zotefoams' business activities. In addition to the risks noted for the rest of Zotefoams' business, risks surrounding intellectual property and Zotefoams' position as a minority partner are relevant. Due diligence has been conducted on the new venture and the Board believes that it represents an exciting opportunity for Zotefoams.

## 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 have contributed to the success of the business during the first half of the year.

## Outlook

The business has performed well in the first six months of 2008 with strong profit growth and improved gross margins. Historically Zotefoams generates more profit in the first six months of the year and we expect to see this pattern repeated in 2008. We enter the second six months of 2008 against a backdrop of continued economic uncertainty and with our suppliers seeking further price increases. Prices for LDPE are already in excess of the average price paid during the first half of 2008 and further increases are likely. We are intensifying our efforts to seek alternative sources of supply for materials, to deliver further internal cost efficiencies, to increase our own selling prices and to continue the development and marketing of our HPP foam products all of which will increase the resilience of the business.

We therefore remain confident of the Company's future prospects.

## **N G Howard**

Chairman  
4 August 2008

## 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**

Chairman  
4 August 2008

## **C G Hurst**

Finance Director  
4 August 2008

## Condensed Consolidated Income Statement

for the six months ended 30 June 2008

	Note	Six months ended 30 June 2008 £000	Six months ended 30 June 2007 £000	Year ended 31 December 2007 £000
<b>Revenue</b>	5	<b>18,139</b>	15,645	31,606
Cost of sales		<b>(12,159)</b>	(11,219)	(23,035)
<b>Gross profit</b>		<b>5,980</b>	4,426	8,571
Distribution costs		<b>(1,316)</b>	(1,184)	(2,344)
Administrative expenses		<b>(1,924)</b>	(1,402)	(2,766)
<b>Operating profit</b>		<b>2,740</b>	1,840	3,461
Financial income		<b>580</b>	525	1,063
Finance costs		<b>(612)</b>	(563)	(1,152)
<b>Profit before tax</b>		<b>2,708</b>	1,802	3,372
Taxation	6	<b>(681)</b>	(184)	(454)
<b>Profit for the period</b>		<b>2,027</b>	1,618	2,918
Attributable to:				
Equity holders of the parent		<b>2,027</b>	1,618	2,918
<b>Earnings per share</b>				
<b>Basic (p)</b>	8	<b>5.6</b>	4.5	8.0
<b>Diluted (p)</b>	8	<b>5.5</b>	4.4	7.9



## Condensed Consolidated Statement of Recognised Income and Expense

for the six months ended 30 June 2008

	<b>Six months ended 30 June 2008 £000</b>	Six months ended 30 June 2007 £000	Year ended 31 December 2007 £000
Foreign exchange translation differences on investment in foreign subsidiary	<b>(4)</b>	(158)	(117)
Effective portion of change in fair value of cash flow hedges net of recycling	<b>50</b>	(34)	(269)
Actuarial (losses)/gains on defined benefit schemes	<b>(1,263)</b>	—	1,141
Tax on items taken directly to equity	<b>340</b>	11	(271)
<b>Net (expense)/income recognised directly in equity</b>	<b>(877)</b>	(181)	484
Profit for the period	<b>2,027</b>	1,618	2,918
<b>Total recognised income and expense for the period</b>	<b>1,150</b>	1,437	3,402
Attributable to equity holders of the parent	<b>1,150</b>	1,437	3,402

## Condensed Consolidated Balance Sheet

as at 30 June 2008

	Note	30 June 2008 £000	30 June 2007 £000	31 December 2007 £000
<b>Non-current assets</b>				
Property, plant and equipment		<b>25,586</b>	26,649	26,436
Deferred tax assets		<b>152</b>	83	138
<b>Total non-current assets</b>		<b>25,738</b>	26,732	26,574
<b>Current assets</b>				
Inventories		<b>4,381</b>	4,144	4,280
Trade and other receivables		<b>7,929</b>	7,073	7,351
Cash and cash equivalents		<b>1,732</b>	117	258
<b>Total current assets</b>		<b>14,042</b>	11,334	11,889
<b>Total assets</b>		<b>39,780</b>	38,066	38,463
<b>Equity</b>				
Issued share capital	9	<b>(1,854)</b>	(1,820)	(1,820)
Share premium	9	<b>(13,941)</b>	(13,941)	(13,941)
Reserves	9	<b>910</b>	728	922
Retained earnings	9	<b>(11,915)</b>	(10,156)	(11,827)
<b>Total equity attributable to the equity holders of the Company</b>		<b>(26,800)</b>	(25,189)	(26,666)
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings		<b>(100)</b>	(500)	(300)
Employee benefits	10	<b>(3,435)</b>	(3,931)	(2,465)
Deferred tax liabilities		<b>(2,450)</b>	(2,438)	(2,699)
<b>Total non-current liabilities</b>		<b>(5,985)</b>	(6,869)	(5,464)
<b>Current liabilities</b>				
Interest-bearing loans and borrowings		<b>(400)</b>	(400)	(400)
Bank overdraft		<b>(1,616)</b>	(1,739)	(1,242)
Tax payable		<b>(808)</b>	(585)	(561)
Trade and other payables		<b>(4,171)</b>	(3,284)	(4,130)
<b>Total current liabilities</b>		<b>(6,995)</b>	(6,008)	(6,333)
<b>Total liabilities</b>		<b>(12,980)</b>	(12,877)	(11,797)
<b>Total equity and liabilities</b>		<b>(39,780)</b>	(38,066)	(38,463)

## Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2008

	Six months ended 30 June 2008 £000	Six months ended 30 June 2007 £000	Year ended 31 December 2007 £000
<b>Cash flows from operating activities:</b>			
Profit for the period	2,027	1,618	2,918
Adjustments for:			
Depreciation, amortisation and impairment	1,427	1,646	3,129
Gain on sale of property, plant and equipment	—	(12)	(9)
Financial income	(580)	(525)	(1,063)
Finance expense	612	563	1,152
Equity-settled share-based payments	81	50	91
Taxation	681	184	454
<b>Operating profit before changes in working capital and provisions</b>			
	<b>4,248</b>	3,524	6,672
Increase in trade and other receivables	(537)	(982)	(1,287)
Increase in inventories	(101)	(377)	(504)
Increase/(decrease) in trade and other payables	167	(125)	498
Decrease in provisions and employee benefits	(300)	(300)	(600)
<b>Cash generated from the operations</b>			
	<b>3,477</b>	1,740	4,779
Interest paid	(37)	(46)	(138)
Tax paid	(382)	(198)	(564)
<b>Net cash from operating activities</b>			
	<b>3,058</b>	1,496	4,077
Proceeds on disposal of property, plant and equipment	—	12	22
Interest received	10	3	17
Acquisition of property, plant and equipment	(657)	(1,479)	(2,692)
<b>Net cash used in investing activities</b>			
	<b>(647)</b>	(1,464)	(2,653)
Proceeds from the issue of share capital	—	38	202
Repurchase of own shares	—	(77)	(242)
Repayment of borrowings	(200)	(200)	(400)
Dividends paid	(1,106)	(1,091)	(1,637)
<b>Net cash used in financing activities</b>			
	<b>(1,306)</b>	(1,330)	(2,077)
Net increase/(decrease) in cash and cash equivalents	1,105	(1,298)	(653)
Cash and cash equivalents at 1 January	(984)	(329)	(329)
Effect of exchange rate fluctuations on cash held	(5)	5	(2)
<b>Cash and cash equivalents at the end of period</b>			
	<b>116</b>	(1,622)	(984)

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

# Notes to the Condensed Interim Financial Statements

for the six months ended 30 June 2008

## 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 2007. 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 2008 is unaudited but has been reviewed by the auditors. 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 2007 and the unaudited financial information in the interim financial statements for the period ended 30 June 2007. The Independent Review Report to Zotefoams plc from the independent auditor is set out on page 15.

The comparative figures for the financial year ended 31 December 2007 are not the Company's statutory accounts for that financial year. Those accounts 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 237(2) or (3) of the Companies Act 1985.

## 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 cyclicity.

## 3. Post Balance Sheet Events

On 8 July 2008, as disclosed in the Interim Management Report, Zotefoams invested in a 30% shareholding of a joint venture, MuCell Extrusion LLC.

#### 4. 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 2007.

In light of significant changes in market conditions, the company has updated the assumptions under which the employee benefit liability is calculated. The revised assumptions and the impact of these assumptions are set out in note 10.

#### 5. 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: 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 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. However, 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 the high-performance polymers business is currently in its early stages with costs (including the technical development and marketing costs to develop these materials) exceeding revenues.

Six months ended 30 June 2008	Polyolefins £000	High-performance polymers £000	Consolidated £000
Revenue	17,772	367	18,139
Operating profit/(loss)	3,006	(266)	2,740

Six months ended 30 June 2007	Polyolefins £000	High-performance polymers £000	Consolidated £000
Revenue	15,218	427	15,645
Operating profit/(loss)	1,994	(154)	1,840

# Notes to the Condensed Interim Financial Statements

for the six months ended 30 June 2008

## 6. Taxation

	<b>Six months ended 30 June 2008 £000</b>	Six months ended 30 June 2007 £000
Current tax:		
UK corporation tax	<b>630</b>	476
	<b>630</b>	476
Deferred tax	<b>51</b>	(292)
	<b>681</b>	184

The Group's consolidated effective tax rate for the six months ended 30 June 2008 was 25% (2007: 10%).

The effective rate in 2007 was impacted by the change in UK corporation tax rates reducing the deferred tax liability by £0.2m and a £0.1m adjustment in respect of prior periods.

## 7. Dividends

	<b>Six months ended 30 June 2008 £000</b>	Six months ended 30 June 2007 £000
Final dividend for the year ended 31 December 2007 of 3.0p (2006: 3.0p) per share	<b>1,106</b>	1,091

The final dividend for the year ended 31 December 2007 was paid on 22 May 2008.

A proposed interim dividend for the year ending 31 December 2008 of 1.5p per share (2007: 1.5p) was approved by the Board on 4 August 2008 and has not been included as a liability as at 30 June 2008.

## 8. Earnings Per Share

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

	<b>Six months ended 30 June 2008 £000</b>	Six months ended 30 June 2007 £000
Earnings		
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	<b>2,027</b>	1,618
Earnings for the purposes of diluted earnings per share	<b>2,027</b>	1,618
Number of shares	<b>Number</b>	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>36,402,608</b>	36,347,325
Effect of dilutive potential ordinary shares:		
Share options and Long Term Incentive Plans	<b>709,905</b>	701,017
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>37,112,513</b>	37,048,342

## 9. Capital and Reserves

### Reconciliation of movement in capital and reserves

	Share capital £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Hedging reserve £000	Reserves for own shares £000	Retained earnings £000	Total equity £000
Balance at 1 January 2008	1,820	13,941	15	(752)	(185)	—	11,827	26,666
Shares issued	34	—	—	—	—	—	—	34
Shares acquired	—	—	—	—	—	(34)	—	(34)
Total recognised income and expense	—	—	—	(4)	50	—	1,104	1,150
Equity-settled share-based payment transactions net of tax	—	—	—	—	—	—	90	90
Dividends	—	—	—	—	—	—	(1,106)	(1,106)
<b>Balance at 30 June 2008</b>	<b>1,854</b>	<b>13,941</b>	<b>15</b>	<b>(756)</b>	<b>(135)</b>	<b>(34)</b>	<b>11,915</b>	<b>26,800</b>

During the six month period ending 30 June 2008 no share options vested and none were exercised.

	Share capital £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Hedging reserve £000	Reserves for own shares £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	—	—	—	—	(242)	(40)
Shares acquired	(10)	—	10	—	—	—	—	—
Total recognised income and expense	—	—	—	(158)	(34)	—	1,629	1,437
Equity-settled share-based payment transactions net of tax	—	—	—	—	—	—	45	45
Dividends	—	—	—	—	—	—	(1,091)	(1,091)
Balance at 30 June 2007	1,820	13,941	15	(793)	50	—	10,156	25,189

## Notes to the Condensed Interim Financial Statements

for the six months ended 30 June 2008

### 10. Employee Benefits

The current conditions in financial markets and the wider economy have resulted in significant changes in the assumptions used to value the Zotefoams Defined Benefit Pension Scheme.

Key assumptions	30 June 2008	31 December 2007
Discount Rate	<b>6.75%</b>	5.90%
Rate of increase to pensions in payment	<b>3.80%</b>	3.30%
Rate of Inflation	<b>4.00%</b>	3.40%

Applying these assumptions the deficit in the scheme at 30 June 2008 was £3,435,000 (31 December 2007: £2,465,000). During the period the value of the Scheme assets fell from £17,242,000 to £15,598,000 and the change in the Scheme assumptions led to a reduction in the Scheme liabilities from £19,707,000 to £19,033,000 (net of contributions and payments of benefits).



## **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 30th June 2008 which comprises the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cashflow statement 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 the 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.

## **Independent Review Report to Zotefoams plc**

### **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 2008 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

### **KPMG Audit Plc**

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4 August 2008

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