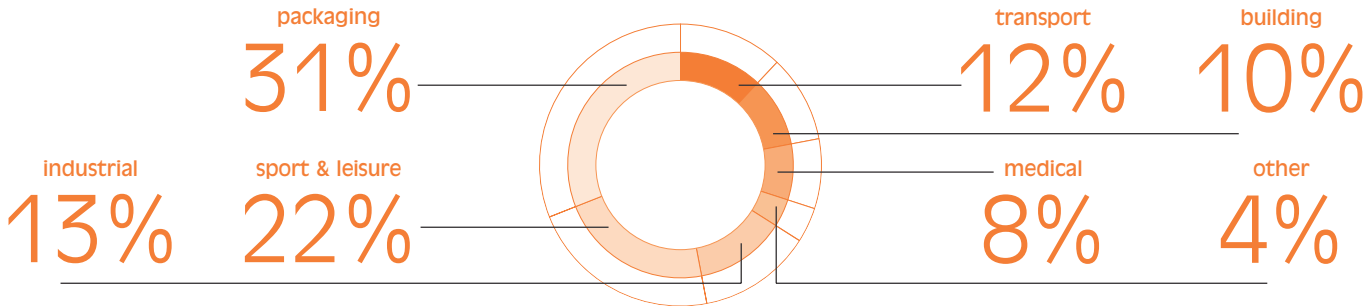




ZOTEFOAMS

- Corporate statement 01
- Chairman's statement 02
- Managing director's review 04
- Finance director's review 10
- Directors and advisers 12
- Directors' report 14
- Report of the board of directors on directors' remuneration 16
- Safety, health and environment ("SHE") report 19
- Corporate governance 20
- Statement of directors' responsibilities 22
- Independent auditors' report to the members of Zotefoams plc 23
- Consolidated profit and loss account 24
- Consolidated statement of total recognised gains and losses 24
- Consolidated balance sheet 25
- Company balance sheet 26
- Consolidated cash flow statement 27
- Reconciliation of net cash flow to movement in net debt 27
- Notes to the financial statements 28
- Notice of 2004 annual general meeting 39
- Five year trading summary IBC
- Financial calendar IBC

breakdown of turnover by market sector



Zotefoams plc is the world's leading manufacturer of cross-linked block foams. Its products are used in a wide range of markets, including sports and leisure, packaging, transport, healthcare, toys, building, marine and the military.

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

Zotefoams' strategy is to create sustained profit growth by expanding its sales internationally and by broadening its potential market with new unique products. This strategy is supported by our commitment to quality, innovation and customer service through investment in the training and development of our employees.

	2003	2002
Turnover (£m)	23.5	23.5
Operating profit pre-exceptional items (£m)	1.1	2.2
Profit before tax pre-exceptional items (£m)	1.0	2.0
Earnings per ordinary share pre-exceptional items (p)	2.0	4.0
Earnings per ordinary share (p)	2.0	16.6
Net dividend per share (p)	4.5	7.5



Zotefoams strategy is to grow both geographically and through new high-performance foams.

Zotefoams strategy is to grow shareholder value by increasing sales, both geographically and through new high-performance foams, exploiting the benefits of improved asset utilisation.

Our direct investment in production facilities in Kentucky has been a major factor behind 13% dollar growth in North America this year, following on from 18% dollar growth in 2002. In the UK and European markets, where Zotefoams has a much greater presence, the focus is on market development and winning and retaining key projects. During 2003 our performance here has been disappointing and we have already started to address key areas requiring improvement. However good progress has been made, exploiting our unique technology, in the development of new materials under the ZOTEK® brand, the first of which are currently in a limited number of acceptance trials with potential customers.

We are therefore delivering on our strategy for growth in North America and have positive early indications from some of our new high-performance foams. Together with the growth in North America, we expect an improved performance in the UK and European markets to allow us to optimise the sales potential of the business and profit from our substantial investments over the past four years.

Results

Profit before tax and exceptional items for the year ended 31 December 2003 was £1.0 million compared to £2.0 million in 2002. Sales of £23.5 million were at similar levels to last year and the decline in profitability was due to additional costs, primarily in freight, depreciation and property rates. There were no exceptional items in 2003.

Earnings per share before exceptional items were 2.0p compared to 4.0p in 2002.

This year we completed the rebuilding of our site after the fire in October 2000, reducing capital expenditure from £5.2 million last year to £1.6 million. With depreciation of £3.2 million our net cash flow from operating activities remains extremely strong at £3.5 million.

Dividend

In view of the disappointing trading performance in the current financial year, the Board believes that a total dividend of 4.5p

per share (2002: 7.5p) for the year is a more appropriate level. Having paid an interim dividend of 2.5p per share we are therefore proposing a final dividend for the year ending 31 December 2003 of 2.0 pence per share (2002: 5.0p). This would be payable on 24 May 2004 to shareholders on the Company register at the close of business on 23 April 2004.

Employees

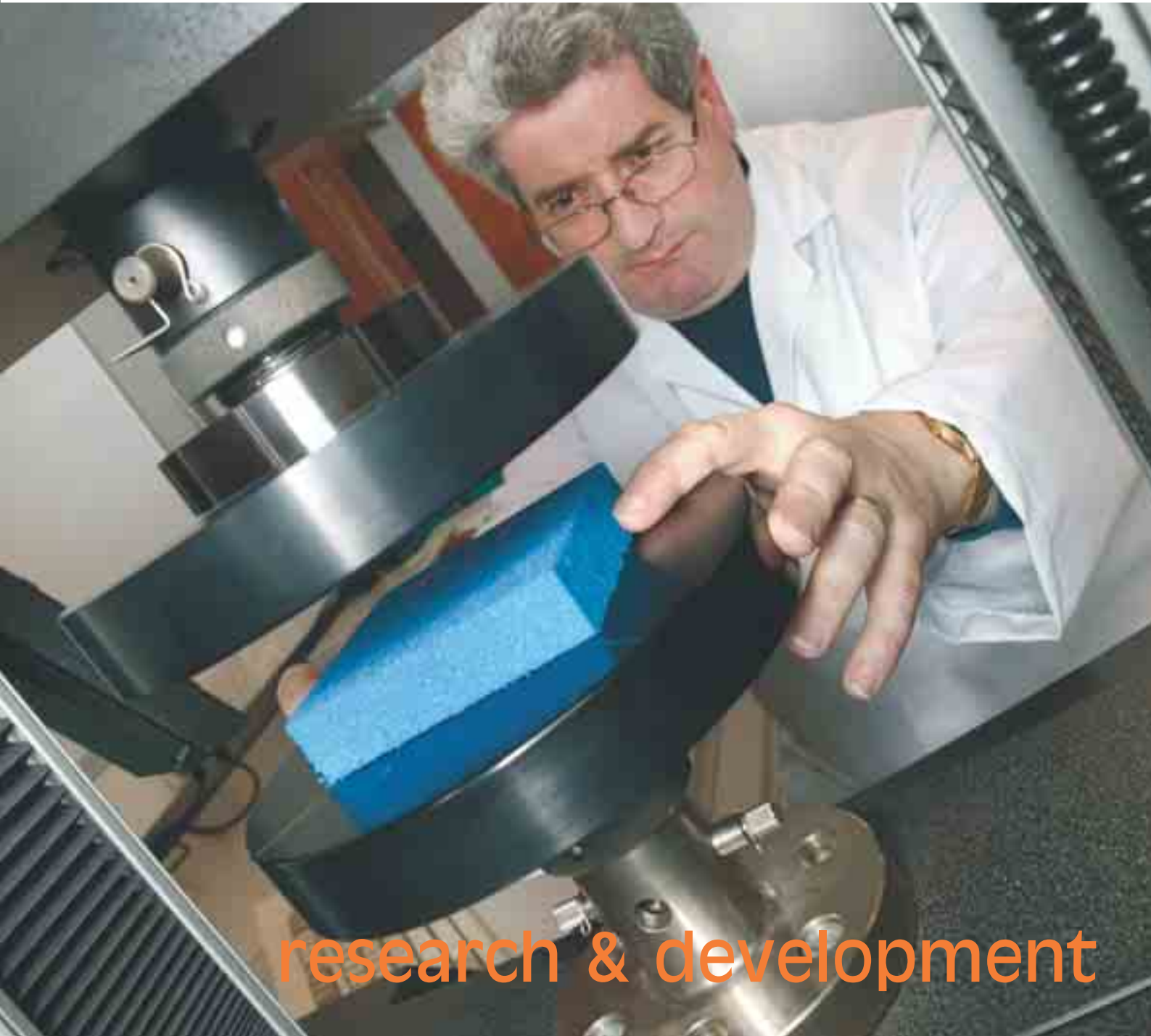
The success of Zotefoams depends on the effort, support and commitment of all employees. On behalf of the Board I would like to thank all employees for their contribution to the business over the past year.

Future outlook

The year has started with an increased level of activity and our expectation is that we will achieve moderate sales growth for the year as a whole. However, in common with many other UK companies, current exchange rates are very unfavourable. With the majority of our sales in either Euros or US Dollars, we expect that our results for 2004 will be significantly negatively impacted should these rates persist. Cost pressures will continue to impact our business, with £0.3 million additional depreciation from assets commissioned during late 2003 and early 2004. In addition, prices for LDPE, our major raw material, are currently also at levels above our average for 2003 and further rises are being sought by suppliers. Although this is not necessarily indicative of the future direction of LDPE prices it will reduce our margins early in the year.

Despite these pressures we believe that changes made in our North American operations will positively impact our results and additional margins from sales growth will be in excess of cost increases. We are also encouraged by the positive initial reaction in the market to some of our new high performance polymer foams and believe that these will begin to make a positive impact on the business sometime next year.

W H Fairservice
Chairman



research & development

The technological benefits of the Zotefoams process are being exploited to develop new high performance foams.



We continue to seek new and profitable markets in lighter-density foams.

Results

Profit before tax and exceptional items for the year ended 31 December 2003 was £1.0 million compared with £2.0 million for the previous year. Sales of £23.5 million were at similar levels to 2002 and the decline in profitability was attributable to cost increases which are explained in more detail below.

Sales and marketing

Although sales were at similar overall levels to the previous year our performance varied significantly between markets.

North America Zotefoams has always had a strong presence in the UK and European markets for polyolefin foams and, in late 2001 we opened a production site in Northern Kentucky which significantly raised our profile and ability to supply this dynamic and growing market. Prior to this Zotefoams had a good reputation in high-value, speciality markets such as medical and electronics, but was unable to sell to the larger, more consumer-driven markets due to price barriers created by shipping and duty costs. Following the commencement of production in the USA our growth in North America has come predominantly from lighter-density products, particularly in the automotive and construction markets. In the longer term we expect to develop outside these markets and exploit opportunities in many more of the industries we serve in Europe. During 2003 annual growth was 13% in US dollars, but with an accelerating trend as growth in the second six months was 20% in US dollars. We continue to seek new

and profitable markets in lighter-density foam while exploiting our product superiority and reputation to enhance our position in speciality markets.

Reported results from North America were affected by the weak dollar relative to the pound and local currency growth of 13% during 2003 translated to growth of 4% in Sterling.

Europe In continental Europe results for 2003 have been very disappointing. In conjunction with our exclusive agent Alveo AG, (a subsidiary of Sekisui Chemical Co Ltd) we pursued a strategy of selectively increasing the number of direct customers. Our objective was to increase market visibility and, by being "closer to the action" in many cases, to secure an increase in new business and projects as older projects came to an end.

The transition to this approach requires some operational changes and the building of relationships with a number of new customers previously supplied through intermediaries. In the short term this has proved more difficult than anticipated and we believe is a major contributor to our disappointing performance in Europe this year. In addition we have seen mixed market conditions and we experienced a sharp drop in sales late in the year in Southern Europe and France.

Performance in Germany, showing growth of 12% in constant currency, was particularly pleasing with an excellent year at our largest customer due to strength in the automotive and packaging sectors and good performance at other direct accounts.



manufacturing

Zotefoams skilled operations team utilises in-house training and specialist equipment to manufacture polyolefin foam with the highest level of performance and quality. The three stage process starts with extrusion of solid polymer sheets, and ends in expansion.

Our 2004 results will benefit from the better utilisation of our Walton facility.

Sales and marketing (continued)

United Kingdom The UK remains our largest single country market. Overall we experienced a 6% fall in sales revenue compared to 2002. The main reason for this was the decline in the market for offshore oil and chemical hoses, supplied by one of our large UK customers, due to the situation in the Middle East early in the year. Conditions in this market are improving and we anticipate a slow recovery for our product here. Excluding the decline in sales to this customer, sales were around similar levels to last year.

Other areas Sales outside Europe and North America are a small percentage of our business. The costs of transportation and duty limit our opportunities in these areas to high value added materials which require significant end-user education and sales effort. Our approach is to pursue the most promising opportunities using a combination of sales agents and distributors supported by UK-based Zotefoams' staff.

Operations and cost base

Zotefoams has two production sites: Croydon, UK where there is a "full-service" operation and Walton, Kentucky, USA where we have a "satellite foaming" plant. The Walton plant receives solid materials from Croydon and foams them thus reducing freight costs and allowing cost-effective access to the North American market.

The Croydon plant operated fully as expected during the year. However, we did experience problems, mainly in the

operation of our low-pressure vessel, at our Walton plant. Our corrective action plan involved changes in senior management at this facility and shipping expanded foam from Croydon to Walton, to ensure supply to key customers and allow the development of our North American market to continue uninterrupted. Plant modifications were made late in the first half of 2003, however we decided to continue shipping a limited number of expanded foam products for commercially sensitive accounts for the remainder of the year. While we believe this was the best course of action for the long-term benefit of the customer and Zotefoams, the excess freight costs were a significant component of our overall cost increases this year. We do not expect freight costs to continue at these levels and therefore our 2004 results will benefit from the better utilisation of our Walton facility.

During the year we substantially completed the commissioning of our latest phase of high-pressure equipment in Croydon and this machine became fully operational in February 2004. This will allow us to decommission and refurbish some older vessels and gives the ability to bring capacity on-line to meet future increases in demand.

Investment in plant and equipment has been significant over the past four years, with the US Plant opening, rebuilding our Croydon site after the fire in 2000 and a number of significant projects including investment in flexible high-pressure capacity and IT systems. Capital expenditure for 2003 was £1.6 million, compared with an annual average over the last three years of £5.8 million and we expect that expenditure over the next



customer service

Customer service forms an integral part of our business. Our investment in IT systems is a critical part of this and allows real-time information on product availability.

The combination of high temperatures and high pressures in our installed capacity allows us to expand materials which cannot be handled by other foaming processes.

few years will remain around the lower levels seen this year. Significantly our depreciation charges have increased in line with capital expenditure and depreciation in 2003, excluding those charges which formed part of the 2002 exceptional items, was £0.3 million more than the previous year.

As indicated in our AGM statement in April 2003 there was also an unexpected property rates increase, including a retrospective assessment for 2002, which increased our costs by £0.2 million.

The average price of our main raw material, low-density polyethylene, was similar to last year. Raw materials are a significant proportion of our cost base and subject to commodity pricing. Currently the Board considers there is no economically effective possibility of hedging prices for these materials and, due to the frequency and magnitude of the variations, we do not pass such price increases or decreases to the end customer.

Technology and innovation

A key element in Zotefoams business strategy is to harness the potential of our proprietary foaming technology. The combination of high temperatures and high pressures in our installed production equipment allows us to expand materials which cannot be handled by other foaming processes.

In 2002 we reported good progress in early feasibility trials. During 2003, in line with our strategy of focused development activity, we moved the most promising of these to plant production level. In August we signed a collaboration agreement

with Atofina Chemicals Inc., the chemical branch of Total, to develop foams from their Kynar® PVDF fluoropolymers, a range of materials which are known for their purity and extremely good chemical resistance. The first of a range of such foams, under the brand name ZOTEK®, is currently undergoing technical trials with a number of potential customers. Early adopters are likely to be in aerospace where the combination of fire performance, light weight and closed-cell configuration is highly valued. Potential applications have also been identified in chemical process and semi-conductor industries where chemical resistance and purity respectively may be unique selling points.

Other materials are currently at early stage development and we are either working with or seeking both commercial and technology partners to accelerate development on many of these projects. Initial levels of interest in ZOTEK® PVDF foams and other materials is high but we are aware that developments of this kind, which offer potentially high rewards, also carry higher levels of risk. Our approach remains therefore to ensure our development activities are tightly focused and that projects which show good potential are progressed quickly to market.

Expenditure on technical development activities varies depending on the stage and progress of individual projects and, in 2003 we increased spending by 29% to support the activities outlined above.

D B Stirling
Managing Director



logistics

An integrated stock control system together with multi-channel docking facilities requires a trained workforce to be able to manage a rapid loading and turnaround of vehicles.



With net assets of £29.8 million the level of gearing is 12%

Group turnover of £23.5 million for 2003 was at the same level as 2002. However, gross profit was down by £1.2 million from £6.2 million pre-exceptional items in 2002 to £5.0 million in 2003. Due to manufacturing problems in North America we incurred additional costs, largely on freight as we had to supply some American customers from our Croydon plant while the manufacturing issues in North America were addressed. There was also an increase in depreciation in the UK, excluding those charges which formed part of the 2002 exceptional item, of £0.3 million following completion of a number of capital projects in 2002 and a £0.2 million additional rates charge of which £0.1 million was a retrospective charge for 2002. The average price of LDPE, our major raw material, was similar to last year at around €770 per tonne.

Distribution, administration and interest costs were £0.2 million lower than last year. Profit before tax pre-exceptional items was £0.95 million compared to £1.95 million in 2002. Earnings per share pre-exceptional items were 2.0p, half of the level achieved in 2002. There were no exceptional items in 2003.

Taxation

Corporation tax has been provided for at a rate of 30%. However, because of movements in deferred taxation the profit and loss account tax charge of £0.2 million is 23% of pre-tax profits.

Cashflow and funding

Analysis of capital expenditure

	2000 £m	2001 £m	2002 £m	2003 £m
Minor expenditure	1.6	0.8	1.9	1.4
Building of US plant	4.5	2.8	0.2	—
Fire replacement assets	—	2.5	3.1	0.2
	6.1	6.1	5.2	1.6

EBITDA pre-exceptional items (earnings before interest, taxation, depreciation, and amortisation) was £4.3 million compared to £5.1 million in 2002. Following heavy capital expenditure on a new American plant and replacing items destroyed in a fire in the Group's Croydon site in 2000, depreciation is £1.6 million higher than capital expenditure. Tax payments in the year of £1.2 million were unusually high because of payments relating to the £6.6 million exceptional profit declared in 2002. However, despite this the dividends paid during the year of £2.7 million were only partially covered by cash generation and the Board has taken the difficult decision to propose a reduction of the dividend from 7.5p per ordinary share to 4.5p. At the middle market quoted share price at 31 December 2003 of 82p this represents a 5.5% yield.

Net debt was £3.6 million at 31 December 2003 compared to £1.7 million in 2002. With net assets of £29.8 million the level of gearing is 12%.

Pensions

The Group has made the disclosures required under the transitional rules of FRS17 'Retirement Benefits' in respect of the defined pension scheme for UK employees. Under these rules the pension fund had assets of £10.1 million and a present value of liabilities of £14.9 million at 31 December 2003. This deficit of £4.8 million is an increase from 2002 (£3.3 million) although the funding ratio (the ratio of the deficit in the scheme to the present value of its liabilities) remained similar at 68% for 2003 (2002: 71%). The scheme has been closed to new entrants from 1 October 2001 and both the Company and the scheme members increased their contributions to the scheme in March 2003.

Treasury

Treasury

	2003		2002	
	Average	Year End	Average	Year End
US Dollar/Sterling	1.64	1.78	1.51	1.60
Euro/Sterling	1.45	1.42	1.59	1.53

Exchange rates movements had a beneficial effect on the 2003 results. The movement in the euro had a profit benefit of approximately £0.5 million offset by a £0.2 million adverse movement in the US dollar.

Analysis of exposure to main currency groups

£ million equivalent

£m incurred in:

	£	US\$	€	Total
Turnover	7.6	5.6	10.3	23.5
Cost of sales	(11.5)	(2.9)	(4.1)	(18.5)
Gross profit	(3.9)	2.7	6.2	5.0
Distribution costs	(1.0)	(0.8)	(0.1)	(1.9)
Administration expenses	(2.0)	—	—	(2.0)
Operating profit/(loss)	(6.9)	1.9	6.1	1.1
2002 operating profit/(loss) pre-exceptionals	(7.7)	2.6	7.3	2.2

The construction of the US plant was partly funded by a \$4.2 million three year loan. The loan is repaid from the dollar income generated by the Group's North American operations and at the end of 2003 \$1.4 million of the loan was outstanding.

The Board has defined policies and procedures relating to treasury management and accounting practices. These are

designed to provide appropriate business support, consistency of reporting and to mitigate risk.

During 2003 the Group increased the foreign exchange hedging that it undertakes to hedge approximately 66% of the net foreign currency exposure for the next six months sales. Translation exposure is not hedged. Interest rates on borrowings are all based on variable rates plus a bank margin and are unhedged as the interest rate risk is not, at present, considered material.

Accounting policies

Although no new accounting standards were adopted in 2003, International Accounting Standards are due for adoption in 2005. The Group has commenced planning for the introduction of these standards.

Going concern statement

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.

C G Hurst

Finance Director

directors and advisers



Bill Fairservice PhD BSc*

Non-executive Chairman, age 63

Led the MBO of Zotefoams from BP Chemicals in 1992, when he became Managing Director of Zotefoams Limited and later Zotefoams plc. Appointed Chairman in January 1999. Relinquished his executive role and became part-time Chairman in July 2001. Previously spent most of his working career with BP Chemicals in a number of technical, production and business management roles.

John Marley**

Deputy Chairman and Senior non-executive Director, Chairman of the Remuneration and Nominations Committees, age 69

Appointed to the Board in 1995. Formerly Chairman and Chief Executive of Avdel plc where he spent most of his working career developing worldwide manufacturing and marketing facilities for precision engineered products.

David Stirling BSc CA MBA MSc

Managing Director, age 37

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.

Anthony Eldrett MBA

Operations and Projects Director, age 59

A Director since the MBO in September 1992. Previously employed by BP Chemicals for a number of years, holding wide-ranging positions in human resources, health and safety, engineering projects and operations management.

Clifford Hurst BA FCA MCT

Finance Director and Company Secretary, age 41

Joined Zotefoams plc in October 2000 from Thermos Limited where he was Commercial Director and prior to that Finance Director. Previously with Caradon plc (now Novar plc), ICI plc and Ernst & Young.

Roger Lawson FCA**

Non-executive Director and Chairman of the Audit Committee, age 58

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 King's Court Trust Corporation plc, a number of unlisted companies and a trustee of the Thalidomide Trust.

Chris Ryan BSc FiChemE CEng***

Non-executive Director, age 57

Appointed to the Board in December 1999. Formerly Managing Director of Air Products PLC and Senior Vice President of Air Products and Chemicals Inc. with responsibility for Air Products European Gases businesses. He is a graduate of the Harvard Business School ISMP Program and was previously based in the USA for five years, with global accountability for Air Products' Electronics Business, as well as Corporate Planning and Strategy.

* Member of the Remuneration Committee

† Member of the Audit Committee

Member of the Nominations Committee

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director's report

The Directors present their annual report and audited financial statements for the year ended 31 December 2003.

Principal activity

The Group's principal activity is the manufacture and distribution of cross-linked block foams. A review of activities during the financial year and future developments is presented on pages 2 to 11 of the annual report.

Results and dividends

Profit attributable to shareholders for the year amounted to £0.7 million (2002: £6.0 million). An interim dividend of 2.5p (2002: 2.5p) net per share was paid on 25 September 2003. The Directors recommend that a final dividend of 2.0p (2002: 5.0p) net per share be paid on 24 May 2004 to shareholders who are on the Company's register at the close of business on 23 April 2004.

Directors

All the current Directors named on pages 12 to 13 served throughout the year.

The Directors retiring by rotation at the Annual General Meeting are Mr D B Stirling and Mr C G Hurst who, being eligible, offer themselves for re-election. Mr Stirling and Mr Hurst have service contracts which are terminable on 12 months written notice.

Employees

To ensure employee welfare, the Company 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 9002), Environmental (ISO 14001), Training (IIP) and Occupational Health and Safety (OHSAS 18001) approvals.

Substantial shareholdings

As at 8 March 2004 the Company had received notice of the following material interests of 3% or more in the issued ordinary share capital in addition to those of the Directors which are shown in the Report of the Board on Directors' remuneration.

	Ordinary share of 5p	Percentage of issued share capital
Schroder Investment Management	4,417,325	12.18%
Alveo AG (a subsidiary of Sekisui Chemical Co Ltd)	3,465,762	9.56%
Acorn Income Fund Limited	2,711,960	7.48%
3i Group plc	2,154,192	5.94%
H T Troplast AG	1,429,992	3.94%

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 (2,700,000 shares, 7.45%) and British Coal Staff Superannuation Scheme (1,941,612 shares, 5.36%).

Research and development

The amount spent by the Group on R&D in the year was £635,000 (2002: £492,000).

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 2003 trade creditors of the Company represented 36 days of purchases (2002: 27 days).

Share capital and reserves

There were no changes to the issued share capital during the year. Movements in reserves are shown in note 19 to the financial statements.

Pension scheme

The trustees of the Zotefoams' Pension Scheme comprise three employers and two employee representatives, the latter being elected by the members of the scheme. The Zotefoams' Pension Scheme is a defined benefit scheme. In October 2001 the Company closed the Zotefoams' Pension Scheme to new members and opened a new scheme, the Zotefoams' Stakeholder Pension Scheme, for new employees.

Charitable and political donations

The Group did not make any political or charitable contributions during the year.

Auditors

A resolution to re-appoint KPMG Audit Plc as the Company's auditors will be proposed at the Annual General Meeting.

By order of the Board

C G Hurst

Secretary

8 March 2004

report of the board of directors on directors' remuneration

INFORMATION NOT SUBJECT TO AUDIT

Remuneration Committee membership and terms of reference

The independent non-executive Directors comprise the Committee which is chaired by Mr J C Marley, the Deputy Chairman.

The remuneration and emoluments of executive Directors are determined by the Board on the advice of the Remuneration Committee. The Remuneration Committee has access to independent advice where it considers it appropriate.

Remuneration policy

It is the aim of the Committee to reward Directors competitively whilst being sensitive to pay and employment conditions elsewhere in the Company. The policy is that performance related components should form a significant portion of the overall remuneration package.

The Company operates an unapproved discretionary share option scheme for executive Directors and senior employees. This scheme is operated by the Company's Remuneration Committee who decide which individuals should participate and the extent of their participation. Options granted under the scheme are normally exercisable no earlier than three years from the date of grant and no later than ten years from the date of grant.

These options only become exercisable if certain performance criteria are attained under a scaled vesting schedule. The Board believes that the performance conditions are stretching.

The performance condition that the Remuneration Committee imposed in 2003 is that an option may only be exercised, if over a period of three years commencing at the start of the financial year in which the grant is made, the percentage growth in earnings per share pre-exceptional items of the Company exceeds the percentage growth in the retail price index by over 20%. A full award is only made if earnings per share pre-exceptional items exceed the percentage growth of the retail price index by 40%.

If, in the future, other performance conditions prove to be more appropriate, these may be imposed instead, provided they satisfy the guidelines of the institutional investors.

This scheme incorporates a clause so that it is agreed with the individual, before they are granted an option, that the Company will either transfer its National Insurance Contributions (NICs) liability to the individual, or it will recover any NICs paid in this regard upon the exercise of an option from the individual.

Bonus schemes and benefits in kind

Executive Directors are eligible for a discretionary bonus based on a common profit before tax performance threshold which was set by the Remuneration Committee. In 2003 this threshold was not met and there was no payout under this scheme.

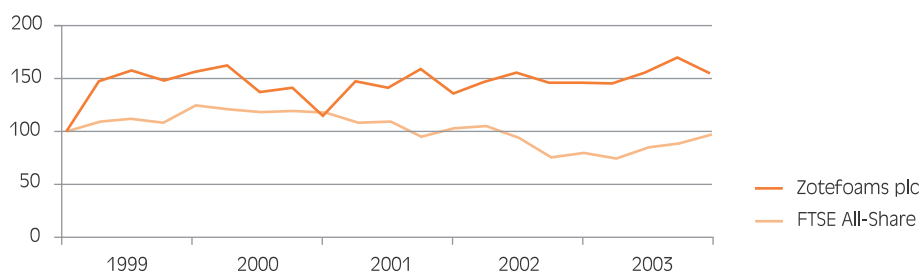
In addition executive Directors are eligible for a performance related payment under the Company's Profit Sharing Scheme which is open to UK based employees. The benefit attributable to participants each year is based on adjusting a pool of value in relation to the change in profit. For 2003 there was no pay out under this scheme.

The principal benefits in kind provided to Directors include a cash allowance in lieu of a company car and private healthcare insurance. No benefits are pensionable.

Total shareholder return

The following graph charts the total cumulative shareholder return (share price movements plus dividends reinvested) of the Company since 1 January 1999. It is compared to the FTSE All-Share Index which the Board believes is the most relevant comparison for a company of Zotefoams' size.

Zotefoams plc and FTSE All-Share Total Return Index ("TRI") rebased to 100 (January 1999 to December 2003)



Service contracts

The executive Directors and W H Fairservice have service contracts with the Company which are terminable on 12 months written notice from the Company or the respective Director.

The other non-executive Directors have an initial appointment of three years unless terminated by the Director or the Company on at least six months written notice.

The remuneration of non-executive Directors is determined by the full Board, other than the Director whose remuneration is being determined.

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.

INFORMATION SUBJECT TO AUDIT

Directors' emoluments

Remuneration in £	Basic salary /fees	Bonus	Car allowance	Other benefits	Total 2003	Comparable 2002
W H Fairservice	49,275	—	—	1,862	51,137	50,001
D B Stirling	115,569	—	10,972	713	127,254	123,564
A Eldrett	88,966	—	9,955	1,355	100,276	97,401
C G Hurst	81,949	—	9,955	858	92,762	89,974
R H Lawson	20,300	—	—	—	20,300	1,611
J C Marley	22,889	—	—	—	22,889	26,275
C J Ryan	19,769	—	—	—	19,769	19,238
	398,717	—	30,882	4,788	434,387	408,064

Note:

- 1) Fees, car allowance and other benefits are non-pensionable.
- 2) All executive Directors are entitled to a company car cash allowance as determined by the Remuneration Committee.
- 3) Other benefits are calculated in terms of taxable values in the UK.
- 4) R H Lawson was appointed to the Board on 3 December 2002.
- 5) In 2002 a payment of £4,000 was made to J C Marley in recognition of the additional work he performed for the Company during the year, including the extra responsibilities he assumed between the departure of I M Buckley and the appointment of R H Lawson.

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 at:	31 December 2003	31 December 2002
W H Fairservice	1,086,820	1,104,082
D B Stirling	28,625	28,625
A Eldrett	938,358	958,358
C G Hurst	25,029	16,214
R H Lawson	5,000	5,000
J C Marley	40,208	40,208
C J Ryan	20,000	20,000

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:

Date from	Scheme	As at 31 December 2002	Granted	Lapsed	As at 31 December 2003	Exercise price	Exercisable	Expiry date
D B Stirling	Savings related SOS	12,337	—	—	12,337	77.0p	1.6.2005	1.12.2005
C G Hurst	Savings related SOS	12,337	—	—	12,337	77.0p	1.6.2005	1.12.2005
C G Hurst	IRASOS	32,432	—	—	32,432	92.5p	4.4.2004	3.4.2011
D B Stirling	IRASOS	—	37,500	—	37,500	80.0p	18.3.2006	17.3.2013
A Eldrett	IRASOS	—	37,500	—	37,500	80.0p	18.3.2006	17.3.2013
D B Stirling*	Executive SOS	176,470	—	—	176,470	93.5p	24.4.2004	23.4.2011
C G Hurst*	Executive SOS	125,133	—	—	125,133	93.5p	24.4.2004	23.4.2011
D B Stirling**	Executive SOS	210,093	—	—	210,093	80.5p	20.8.2005	19.8.2012
C G Hurst**	Executive SOS	148,975	—	—	148,975	80.5p	20.8.2005	19.8.2012
A Eldrett**	Executive SOS	161,731	—	—	161,731	80.5p	20.8.2005	19.8.2012
D B Stirling***	Executive SOS	—	217,748	—	217,748	80.0p	18.3.2006	17.3.2013
C G Hurst***	Executive SOS	—	154,403	—	154,403	80.0p	18.3.2006	17.3.2013
A Eldrett***	Executive SOS	—	167,624	—	167,624	80.0p	18.3.2006	17.3.2013

report of the board of directors on directors' remuneration

Savings related (SAYE) share option scheme

UK resident Directors and UK based employees of the Company with a contractual working week of at least 20 hours and at least one year's service are eligible to participate in Zotefoams' Savings Related (SAYE) Share Option Scheme.

Inland Revenue approved share option scheme (IRASOS)

These options have been granted under an Inland Revenue Approved Share Option Scheme. These options are not exercisable unless the Group's earnings per share, before exceptional items, increases over a three year period by at least 6% in excess of the increase in the Retail Price Index over the same period.

Executive share option scheme

These options have been granted under the Zotefoams Executive Share Option Scheme. These options are not exercisable unless the Group earnings per share, before exceptional items, increase by at least 20% in excess of the increase in the Retail Price Index over the three year period ending 31 December 2003 indicated by *, or the three year period ending 31 December 2004 indicated by **, or the three year period ending 31 December 2005 indicated by ***.

Further conditions control the amount of shares available under those options. For the full amount of shares to be available under the award, the earnings per share increase over the Retail Price Index increase must be 40% over the three year period. If the earnings per share increase over the Retail Price Index increase is between 30% and 40%, the amount of shares available under the option is reduced by one third. If the earnings per share increase over the Retail Price Index increase is between 20% and 30%, the amount of shares available under the option is reduced by two thirds.

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 2003 was 82p and the high and low prices during the year were 101.5p and 73p respectively.

Pension scheme

The executive Directors are members of the Zotefoams' Pension Scheme which was open to all eligible employees who joined the Company before 1 October 2001. This entitles each of them to a pension at the date of normal retirement, based on their final basic salary. Each member contributed 6.5% of pensionable pay to the scheme in addition to the Company's contribution rate of 14.1%. The normal retirement age for executive Directors is 65. With the exception of W H Fairservice, the non-executive Directors do not participate in the Zotefoams Pension Scheme.

Directors' pension entitlements

	Accrued pension in scheme at year end(1) £	Gross increase in accrued pension £	Increase in accrued pension net of inflation £	Value of accrued pension at year end(2) £	Value of accrued pension at start of the year £	Total change in value over the period(3) £
W H Fairservice	17,883	1,945	1,674	248,421	200,969	43,376
D B Stirling	10,452	1,811	1,663	43,245	29,075	8,344
A Eldrett	49,930	2,860	2,060	560,137	504,076	55,552
C G Hurst	4,212	1,383	1,335	20,645	11,367	4,413

- 1) The pension entitlement shown is that which would be paid annually on retirement at normal retirement age, based on service to the end of year and excluding any increase for inflation.
- 2) Transfer values have been calculated in accordance with version 9.0 of guidance note GN11 issued by the actuarial profession.
- 3) The change in the transfer value includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors, such as stockmarket movements. It is calculated after deducting the Director's contributions.
- 4) Members of the scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table.

The following is additional information relating to Directors' pensions:

- a) Normal retirement age: 65
- b) Dependents' pensions: a spouse's pension is payable on death in service of one-third of the member's annual salary at death, apart from C G Hurst where it would be half the prospective pension that would have been payable on normal retirement. On death after leaving service, before retirement, a spouse's pension is payable of 50% of the member's preserved pension at leaving, re-valued from leaving to death in line with statutory revaluation increases. On death in retirement, a spouse's pension is payable of 50% of the member's pension at death, without reduction for any part of the member's pension surrendered for cash at retirement.
- c) Pension increases: guaranteed minimum pensions increase at the statutory rates. Other pensions increase by the lesser of 5% per annum or the increase in the Retail Price Index.

The report was approved by the Board of Directors on 8 March 2004 and signed on its behalf by:

J C Marley

Non-Executive Director and Chairman of the Remuneration Committee
8 March 2004

safety, health and environment (“SHE”) report

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

The Operations and Projects Director is directly responsible to the Board for Health and Safety performance and from March 2004 for Environmental performance. Prior to this the Technical Manager was responsible for Environmental performance. Site committees meet quarterly to consider all SHE matters and Steering Committees, chaired by the Managing Director, 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 both 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 aware that primary responsibility for safety lies with the employee.

Health & 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 is 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.

During the year the overall safety performance of the Group regrettably deteriorated. There were two reportable incidents – one in the UK and one in the US. However, the total number of injuries remained similar to last year.

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. The Company also operates an Internal Audit system to supplement the annual audit by accreditation bodies.

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 crosslinking 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.

In 2003 the overall environmental performance of the Group remained unchanged with over 80% of all environmental incidents recorded being due to releases of nitrogen gas into the air from bursting disks. 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.

No major investigations or environmental incidents occurred during the year.

corporate governance

The Directors have noted the new Combined Code on Corporate Governance issued in July 2003 and have implemented procedures to move towards compliance with its requirements. In particular the Board intends to implement a formal evaluation process for itself and its Committees in the first half of 2004. Other than this in the opinion of the Directors the Group has complied throughout the period with the Code of Best Practice as set out in Section 1 of the Combined Code and summarised below:

Board composition and responsibility

At the beginning of 2003 the Board structure comprised three executive Directors, three independent, non-executive Directors and a non-executive Chairman. W H Fairservice is the Chairman and J C Marley is the senior independent Director.

Membership of various Board committees is disclosed in the Directors and advisers section of the annual report.

Appointments to the Board are proposed by a Nominations Committee and approved by majority vote of the full Board.

The Chairman of the Nominations Committee is J C Marley.

Re-election is required at the first Annual General Meeting following appointment and at least every three years thereafter.

Normally there are seven Board meetings scheduled each year. In 2003 nine Board meetings were held, and apart from C J Ryan, who was unable to attend one meeting, there was full attendance at all meetings. A formal schedule of matters which require Board approval is in place. Each month all Directors receive management reports and briefing papers in relation to Board matters.

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. Training is available for all new Directors and is available subsequently in order to fulfil the requirements of being a Director of a listed plc.

Directors' remuneration

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

Relations with shareholders

Meetings with institutional shareholders are held twice a year following announcement of the Group's interim and final results. Other meetings may be held at institutional shareholder request. To ensure that the Board, particularly the non-executive Directors, understand the views of major shareholders, the Company's brokers provided a summary of feedback from the meetings following the interim and final results announcements. The Chairman, Senior Independent Director and the other non-executive Directors will attend meetings with major shareholders if requested.

The Board considers the annual report and financial statements and Annual General Meeting 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 Annual General Meeting. The corporate website www.zotefoams.com contains information on the Company.

Accountability and audit

The Audit Committee meets at least twice a year. It is chaired by R H Lawson. In 2003 it met three times and with the exception of C J Ryan, who was unable to attend one meeting, there was full attendance at all meetings. The Committee has written terms of reference which comply with the Combined Code. It assists the Board in ensuring appropriate methods of internal financial control are adopted and that the Group's annual report and other published information comply with the relevant statutory requirements. Meetings are attended, at the invitation of the Committee, by the Managing Director, Finance Director and a representative from the Group's external auditors, KPMG Audit Plc. Others are also invited to attend as appropriate. A section of at least one meeting takes place without executive management being present.

Internal control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Combined Code introduced a requirement that the Directors review the effectiveness of the Group's system of internal controls. This review should cover all controls including financial, operational, environmental, health and safety, compliance and risk management.

The Board confirms there is an ongoing process for identifying, evaluating and managing significant risks faced by the Company, that it has been in place for the year under review and up to the date of approval of the Annual Report and Accounts, that it is regularly reviewed by the Board and accords with the guidance of the Combined Code.

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

Control environment The Group is committed to the highest 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.

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.

Operational weaknesses were identified in the Group's North American operations in 2003. Corrective action was taken involving changes in senior management in North America and shipping expanded foam from the UK to North America. A new North American management team is now in place.

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. Actual operating performance is made available to all Directors monthly, and forecasts are presented to the Board quarterly.

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

Control procedures The Group has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties, reviews by management, and external audit to the extent necessary to arrive at their audit opinion. As executive Board members are in close proximity to Group operations, an internal audit function covering financial control is not considered necessary at this time. However an internal audit function does exist to ensure compliance with procedures for environmental, quality and health and safety procedures.

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

Monitoring and corrective action There are clear and consistent procedures in place for monitoring the system of internal financial and non-financial controls. The Audit Committee meets at least twice a year and, within its remit, reviews the effectiveness of the Group's system of internal financial controls. The Committee receives reports from external auditors and management. Non-financial controls are reviewed regularly by Executive management who report any issues and corrective actions taken directly to the Board.

statement of directors' responsibilities

The following statement, which should be read in conjunction with the independent auditors' report, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those 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 applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

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

independent auditors' report to the members of zotefoams plc

We have audited the financial statements on pages 24 to 38. 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 are responsible for preparing the annual report and Directors' remuneration report. As described on page 22 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if 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 transactions with the Group is not disclosed.

We review whether the statement on pages 20 and 21 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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, including the corporate governance statement and the unaudited part of the Directors' remuneration 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.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 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 financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit of the Group for the year then ended; and
- 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.

KPMG Audit Plc

Chartered Accountants

Registered Auditor

Crawley

8 March 2004

consolidated profit and loss account

for the year ended 31 December 2003

	Note	2003 £000	Pre exceptional item £000	2002 Exceptional item (note 3) £000	Post exceptional item £000
Turnover – continuing operations	2	23,504	23,468	—	23,468
Cost of sales		(18,478)	(17,242)	2,155	(15,087)
Gross profit		5,026	6,226	2,155	8,381
Distribution costs		(1,884)	(1,923)	(36)	(1,959)
Administrative expenses		(2,047)	(2,152)	165	(1,987)
Other operating income		—	—	3,464	3,464
Operating profit – continuing operations		1,095	2,151	5,748	7,899
Profit on disposal of fixed assets		—	—	875	875
Profit on ordinary activities before interest and tax		1,095	2,151	6,623	8,774
Interest receivable	6	18	9	—	9
Interest payable and similar charges	7	(158)	(208)	—	(208)
Profit on ordinary activities before taxation	4	955	1,952	6,623	8,575
Tax on profit on ordinary activities	8	(219)	(517)	(2,019)	(2,536)
Profit for the financial year	10	736	1,435	4,604	6,039
Equity dividends – paid		(906)			(906)
Equity dividends – proposed		(725)			(1,813)
Total dividends paid and proposed	9	(1,631)			(2,719)
Retained (loss)/profit for the financial year	19	(895)			3,320
Basic earnings per ordinary share	9	2.0p	4.0p	—	16.6p
Diluted earnings per ordinary share	9	2.0p	4.0p	—	16.6p

There are no exceptional items in 2003.

All amounts in the profit and loss account are derived from continuing operations for the current and prior year. There is no difference in profit for the financial year stated above and the historical cost equivalents and therefore no separate note of historical cost profits and losses has been presented.

consolidated statement of total recognised gains and losses

for the year ended 31 December 2003

	2003 £000	2002 £000
Profit for the financial year	736	6,039
Currency translation differences on foreign currency net investments	(860)	(730)
Total recognised gains and losses relating to the year	(124)	5,309

consolidated balance sheet

as at 31 December 2003

	Note	2003		2002	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	11	32,375		34,765	
			32,375		34,765
Current assets					
Stocks	13	3,178		3,380	
Debtors	14	5,893		5,625	
Cash at bank and in hand		212		372	
			9,283	9,377	
Creditors: amounts falling due within one year	15	(7,263)		(6,831)	
Net current assets			2,020		2,546
Total assets less current liabilities			34,395		37,311
Creditors: amounts falling due after more than one year	16		(57)		(1,049)
Provisions for liabilities and charges	17		(4,502)		(4,671)
Net assets			29,836		31,591
Capital and reserves					
Called-up share capital	18, 19		1,813		1,813
Share premium account	19		13,707		13,707
Capital redemption reserve	19		5		5
Profit and loss account	19		14,311		16,066
Total shareholders' funds – equity	20		29,836		31,591

These financial statements were approved by the Board of Directors on 8 March 2004 and were signed on its behalf by:

W H Fairservice
Chairman

C G Hurst
Finance Director

company balance sheet

as at 31 December 2003

	Note	2003		2002	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	11	25,728		26,985	
Investments	12	7,581		9,492	
			33,309		36,477
Current assets					
Stocks	13	2,365		2,838	
Debtors	14	5,041		5,814	
Cash at bank and in hand		–		203	
		7,406		8,855	
Creditors: amounts falling due within one year	15	(7,156)		(6,684)	
Net current assets			250		2,171
Total assets less current liabilities			33,559		38,648
Creditors: amounts falling due after more than one year	16		(57)		(1,049)
Provisions for liabilities and charges	17		(4,174)		(4,573)
Net assets			29,328		33,026
Capital and reserves					
Called-up share capital	18, 19		1,813		1,813
Share premium account	19		13,707		13,707
Capital redemption reserve	19		5		5
Profit and loss account	19		13,803		17,501
Total shareholders' funds – equity	20		29,328		33,026

These financial statements were approved by the Board of Directors on 8 March 2004 and were signed on its behalf by:

W H Fairservice
Chairman

C G Hurst
Finance Director

consolidated cash flow statement

for the year ended 31 December 2003

	Note	2003		2002	
		£000	£000	£000	£000
Net cash inflow from operating activities	24		3,516		10,954
Returns on investments and servicing of finance					
Interest received		18		9	
Interest paid – bank and other		(89)		(181)	
– finance leases		(27)		(27)	
			(98)		(199)
Taxation					
Mainstream corporation tax		(1,103)		(566)	
Overseas tax		(57)		39	
			(1,160)		(527)
Capital expenditure					
Purchase of fixed assets		(1,614)		(5,197)	
Sale of fixed assets		27		26	
Capital receipts from insurers relating to the fire	3	–		875	
			(1,587)		(4,296)
Equity dividends paid			(2,719)		(2,719)
Cash (outflow)/inflow before financing			(2,048)		3,213
Financing					
Capital element of finance lease payments		(119)		(138)	
New borrowings		–		–	
Repayment of loan instalments		(832)		(928)	
			(951)		(1,066)
(Decrease)/increase in cash in the year			(2,999)		2,147

reconciliation of net cash flow to movement in net debt

for the year ended 31 December 2003

	Note	2003 £000	2002 £000
(Decrease)/increase in cash in the year		(2,999)	2,147
Cash outflow from decrease in debt and lease finance		951	1,066
Change in net debt resulting from cash flows		(2,048)	3,213
Translation differences		145	212
Movement in net debt in the year		(1,903)	3,425
Net debt at the start of the year		(1,675)	(5,100)
Net debt at the end of the year	25	(3,578)	(1,675)

notes to the financial statements

1. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable Accounting Standards, and under the historical cost accounting rules. The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

The Group has followed the transitional rules of FRS 17 "Retirement Benefits" this year, providing certain additional disclosures for its defined benefit pension scheme.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings. All companies within the Group make up their financial statements to 31 December. Unless, otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

A separate profit and loss account dealing with the results of the Parent Company only has not been presented, as permitted by Section 230 of the Companies Act 1985 (see note 10).

Tangible fixed assets and depreciation

Depreciation is provided by the Group to write off the cost less the estimated residual value of tangible fixed assets by equal annual instalments over their estimated useful economic lives as follows:

Freehold buildings	20 years
Plant and machinery	5 – 15 years
Computer equipment and vehicles	3 – 5 years

No depreciation is provided on freehold land. Licences purchased by the Group are amortised over five years.

Assets held under finance leases are depreciated over the lease term where this is shorter than the estimated useful economic life.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. The results of the overseas subsidiary undertakings and overseas branches are translated at the average rate of exchange ruling during the year. The assets and liabilities of the overseas undertakings are translated at the closing exchange rate. Exchange differences arising from the retranslation of the opening net investment in overseas undertakings, and differences between the profits for the year translated at the average and closing rates, are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Research and development expenditure

Expenditure on research and development is written off against profits in the year in which it is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. 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.

Goodwill

Purchased goodwill (both positive and negative) arising on consolidation in respect of acquisitions before 1 January 1998, when FRS 10 Goodwill and intangible assets was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration given and associated costs over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life, not exceeding 20 years.

On the subsequent disposal or termination of a business acquired since 1 January 1998, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

In the Company's financial statements, investment in subsidiary undertakings is stated at cost less any provision against the value.

1. Accounting policies (continued)

Pensions

The Company operates a pension scheme providing benefits based on final pensionable pay, the assets of which are held independently from those of the Company. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Company. The Group also operates defined contribution pension schemes in the US and the UK. Contributions to these schemes are charged to the profit and loss account as they are incurred.

Finance leases

Where the Company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the Balance sheet as a tangible fixed asset and depreciated in accordance with the Group's depreciation policy.

The capital element of future lease payments is included under creditors. Interest is included within "interest payable and similar charges" within the profit and loss account.

Operating leases

Operating leases are any other leases which are not finance leases. Rental charges in respect of operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year.

Cash

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

2. Turnover by geographical market

	UK and Eire £000	France £000	Germany £000	Other Europe £000	North America £000	Rest of the World £000	Total £000
2003	6,895	2,568	3,857	4,191	5,531	462	23,504
2002	7,335	2,754	3,121	4,529	5,331	398	23,468

In the opinion of the Directors the Group is engaged in only one class of business. All turnover originates in the UK.

3. Exceptional item

On 22 October 2000, there was a fire at the Group's Croydon site. In 2001 the expense incurred and insurance proceeds received up to 31 December 2001 were shown in the accounts as an exceptional item. A final settlement of £13.9 million was agreed with insurers in July 2002, of this £6.1 million was received in 2000/1 and £7.8 million in 2002.

	2003 £000	2002 £000
Stock destroyed	—	—
Net book value of fixed assets destroyed	—	—
Revenue costs incurred	—	(1,207)
Cash received from insurers	—	7,830
Exceptional item before taxation	—	6,623
Tax on exceptional item	—	(2,019)
Exceptional item after taxation	—	4,604

The insurance proceeds have not been allocated to specific items by the loss adjusters and Zotefoams' management have therefore allocated these proceeds using their best estimates at the time. Of the £7.8 million received in 2002 management have allocated £3.4 million to revenue cost, £0.9 million to fixed assets destroyed in the fire and the remaining £3.5 million has been treated as compensation for lost sales and allocated to other operating income. There were no exceptional items in 2003.

notes to the financial statements

4. Profit on ordinary activities before taxation

	2003 €000	2002 €000
Profit on ordinary activities before taxation is stated after charging:		
Amounts payable under operating leases	74	71
Research and development costs	635	492
Auditors' remuneration:		
Audit: Group	64	61
Company	58	57
Other fees paid to the auditors and their associates – recurring	12	12
– non-recurring	32	49
	44	61
Net exchange (gains)/losses	(168)	79
Depreciation and amortisation of fixed assets – owned assets	2,998	2,925
– leased assets	159	159

5. Staff numbers and costs

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

	Number of employees	
	2003	2002
Production	124	121
Maintenance	19	20
Distribution and marketing	29	29
Administration and technical	64	64
	236	234

The aggregate payroll costs of these persons were as follows:

	2003 €000	2002 €000
Wages and salaries	6,328	6,140
Social security costs	508	556
Other pension costs	559	488
	7,395	7,184

Details of individual Director's emoluments, pension costs and share options are dealt with on pages 16 to 18 in the Report of the Board on Directors' Remuneration.

6. Interest receivable

	2003 €000	2002 €000
Interest on bank deposits	1	9
Interest on other deposits	17	—
	18	9

7. Interest payable and similar charges

	2003 €000	2002 €000
On bank loans and overdrafts	131	181
On finance leases	27	27
	158	208

8. Tax on profit on ordinary activities

	2003 £000	2002 £000
UK corporation tax at 30% (2002: 30%)	291	190
Overseas taxation	45	(40)
Adjustment to prior year UK tax charge	52	168
Current taxation before tax on exceptional item	388	318
Deferred taxation before tax on exceptional item	(169)	199
Total tax charge before tax on exceptional item	219	517
Tax on exceptional item:		
UK corporation tax	—	1,798
Deferred tax	—	221
	—	2,019
Total tax charge	219	2,536

Factors affecting the tax charge for the current period

The current charge for the period is higher (2002: lower) than the standard rate of corporation tax in the UK of 30% (2002: 30%). The differences are explained below.

	2003 £000	2002 £000
Current tax reconciliation		
Profit on ordinary activities before tax	955	8,575
Current tax at 30% (2002: 30%)	287	2,572
Effects of:		
Research and Development tax credits less expenses not deductible for tax purposes	(25)	3
Depreciation in excess of capital allowances for period	58	(553)
Higher tax rates on overseas earnings	16	17
Adjustments to tax charge in respect of previous periods	52	77
Total current tax charge	388	2,116

9. Dividends and earnings per share

	2003 £000	2002 £000
Interim dividend of 2.5p (2002: 2.5p) net per 5p ordinary share	906	906
Proposed final dividend of 2.0p (2002: 5.0p) net per 5p ordinary share	725	1,813
	1,631	2,719
Dividends per ordinary share	4.5p	7.5p

Earnings per ordinary share

Earnings per ordinary share is calculated by dividing profit after tax of £736,000 (2002: £6,039,000) by the weighted average number of shares in issue during the year. Diluted earnings per ordinary share adjusts for the potential dilutive effect of share option schemes in accordance with FRS 14.

	2003	2002
Average number of ordinary shares issued	36,255,772	36,255,772
Deemed issued for no consideration	69,168	61,204
Diluted	36,324,940	36,316,976

notes to the financial statements

9. Dividends and earnings per share (continued)

Shares deemed issued for no consideration have been calculated based on the potential dilutive effect of the Save As You Earn share option scheme, the Executive Share Option Scheme and options granted under the Inland Revenue Approved Share Option Scheme:

Date from which exercisable	Exercise price	Number of shares under option	
		2003	2002
4 April 2004	92.5p	64,864	64,864
24 April 2004	93.5p	301,603	301,603
21 August 2004	107.5p	125,580	236,666
1 June 2005	77.0p	212,540	261,631
20 August 2005	80.5p	654,494	794,685
18 March 2006	80.0p	872,865	—

The average fair value of one ordinary share during the year was considered to be 83.5p (2002: 90.0p).

10. Profit for the financial year

The Group accounts do not include a separate profit and loss account for Zotefoams plc (the parent undertaking) as permitted by Section 230 of the Companies Act 1985. The Parent Company loss after tax for the financial year is £1,508,000 (2002 profit: £6,242,000).

11. Tangible fixed assets

	Freehold land and buildings £000	Plant and machinery £000	Computer equipment and vehicles £000	Total £000
The Group				
Cost				
At 1 January 2003	14,274	35,703	2,095	52,072
Additions	393	1,093	76	1,562
Foreign exchange	(392)	(430)	(19)	(841)
Disposals	—	(30)	(64)	(94)
At 31 December 2003	14,275	36,336	2,088	52,699
Depreciation				
At 1 January 2003	1,930	14,178	1,199	17,307
Charge for the year	550	2,257	350	3,157
Foreign exchange	(2)	(57)	(13)	(72)
On disposals	—	(4)	(64)	(68)
At 31 December 2003	2,478	16,374	1,472	20,324
Net book value				
At 31 December 2003	11,797	19,962	616	32,375
At 31 December 2002	12,344	21,525	896	34,765
Company				
Cost				
At 1 January 2003	10,071	31,245	1,992	43,308
Additions	391	956	67	1,414
Disposals	—	—	(64)	(64)
At 31 December 2003	10,462	32,201	1,995	44,658
Depreciation				
At 1 January 2003	1,716	13,450	1,157	16,323
Charge for the year	398	1,951	322	2,671
On disposals	—	—	(64)	(64)
At 31 December 2003	2,114	15,401	1,415	18,930
Net book value				
At 31 December 2003	8,348	16,800	580	25,728
At 31 December 2002	8,355	17,795	835	26,985

Included in computer equipment and vehicles and total fixed assets above for both the Company and the Group is £238,000 (2002: £396,000) in respect of the net book value of assets held under finance leases.

12. Fixed asset investments

	Company	
	2003 £000	2002 £000
Shares in Group undertakings – at cost	4,505	4,505
Provision against the value of investment in subsidiary to reflect the value of the underlying net assets	(3,294)	—
Loan to Zotefoams Fabrications Limited	6,370	4,987
	7,581	9,492

The investments consist of the entire ordinary share capital of Zotefoams International Limited (£255,000), and the entire ordinary share capital of £4,250,002 and a \$11,342,000 loan to Zotefoams Fabrications Limited. Both companies are incorporated in the UK.

The following is a complete list of the subsidiary undertakings of the Company, all of which are either directly or indirectly 100% owned:

- Zotefoams International Limited
- Zotefoams Inc.
- Zotefoams Fabrications Limited

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

The principal activities of the subsidiary undertakings are as follows: Zotefoams Fabrications Limited manufactures cross-linked block foams, Zotefoams Inc. purchases and distributes cross-linked block foams and Zotefoams International Limited is a holding company.

In the opinion of the Directors the investments in the Company's subsidiary undertakings are worth at least the amount at which they are stated in the balance sheet.

13. Stocks

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Raw materials and consumables	1,311	1,673	1,296	1,673
Work in progress	624	760	597	734
Finished goods and goods for resale	1,243	947	472	431
	3,178	3,380	2,365	2,838

14. Debtors

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Amounts falling due within one year:				
Trade debtors	5,743	5,473	4,548	4,430
Amounts owed by Group undertakings	—	—	359	1,282
Other debtors	3	78	3	44
Prepayments and accrued income	147	74	131	58
	5,893	5,625	5,041	5,814

notes to the financial statements

15. Creditors: amounts falling due within one year

	Group				Company			
	2003		2002		2003		2002	
	£000	£000	£000	£000	£000	£000	£000	£000
Bank overdrafts		2,828		7		2,828		—
Trade creditors		855		771		855		767
Other creditors including taxation and social security:								
Mainstream corporation tax	385		1,165		396		1,156	
Other taxation and social security	164		132		160		131	
		549		1,297		556		1,287
Other creditors		79		339		35		272
Obligations under finance leases		119		119		119		119
Bank loans		786		872		786		872
Accruals and deferred income		1,322		1,613		1,252		1,554
Dividends proposed		725		1,813		725		1,813
		7,263		6,831		7,156		6,684

16. Creditors: amounts falling due after more than one year

	Group and Company	
	2003 £000	2002 £000
Finance leases:		
Amounts falling due in more than one year but less than two years	57	119
Amounts falling due in more than two years but less than five years	—	58
Bank loans (see note 21):		
Amounts falling due in more than one year but less than two years	—	872
Amounts falling due in more than two years but less than five years	—	—
	57	1,049

17. Provisions for liabilities and charges

	Deferred taxation	
	Group £000	Company £000
The Group and Company		
At 1 January 2003	4,671	4,573
Charge for the year in the profit and loss account	(169)	(399)
At 31 December 2003	4,502	(4,174)

Deferred tax is provided as follows:

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Difference between accumulated depreciation and amortisation and capital allowances	4,502	4,671	4,174	4,573
	4,502	4,671	4,174	4,573

Deferred tax is provided at a rate of 30% (2002: 30%).

No amount is included above for any liability, which might arise in respect of the undistributed reserves of the Company's overseas subsidiary undertaking, which the Group does not expect to remit to the UK.

18. Share capital

	2003 £	2002 £
Authorised At 31 December Equity: 56,000,000 ordinary shares of 5p each	2,800,000	2,800,000
Allotted, called-up and fully paid At 31 December Equity: 36,255,772 ordinary shares of 5p each	1,812,789	1,812,789

Details of share options are provided in note 9 to the accounts on page 32.

19. Statement of movements in reserves and share capital

	Profit and loss £000	Capital redemption £000	Share premium £000	Share capital £000
The Group				
At 1 January 2003	16,066	5	13,707	1,813
Translation differences	(860)	—	—	—
Retained loss for year	(895)	—	—	—
At 31 December 2003	14,311	5	13,707	1,813
The Company				
At 1 January 2003	17,501	5	13,707	1,813
Translation differences	(559)	—	—	—
Retained loss for year	(3,139)	—	—	—
At 31 December 2003	13,803	5	13,707	1,813

The cumulative total of goodwill written off against Group profit and loss account reserves in respect of acquisitions prior to 1 January 1998 when FRS 10 (Goodwill and Intangible Assets) was adopted amounts to:

	£000
Group	990
Company	880

20. Reconciliations of movements in shareholders' funds

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Profit/(loss) for the financial year	736	6,039	(1,508)	6,242
Dividends	(1,631)	(2,719)	(1,631)	(2,719)
Retained (loss)/profit for the financial year	(895)	3,320	(3,139)	3,523
Translation differences	(860)	(730)	(559)	(320)
Net (reduction)/addition to shareholders' funds	(1,755)	2,590	(3,698)	3,203
Opening shareholders' funds	31,591	29,001	33,026	29,823
Closing shareholders' funds	29,836	31,591	29,328	33,026

21. Financial instruments

Policy

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

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign exchange risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained fundamentally unchanged since the beginning of 2003.

The disclosures in this note exclude short-term debtors and creditors.

notes to the financial statements

21. Financial instruments (continued)

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 at 31 December was:

	2003			2002		
	Fixed rates £000	Variable rates £000	Total £000	Fixed rates £000	Variable rates £000	Total £000
Sterling	176	2,828	3,004	295	7	302
US dollar	—	786	786	—	1,745	1,745
	176	3,614	3,790	295	1,752	2,047

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

Liquidity risk

The Group's objective is to maintain a balance of continuity of funding and flexibility through the use of overdrafts, loans and finance leases as applicable. The maturity profile of the Group's borrowings is shown in note 16 on page 34.

The Group has a short-term facility of £5.0 million which is freely transferable and convertible into sterling. This facility expires in February 2005 and is utilised by Zotefoams plc and its subsidiary undertakings under a cross-guarantee structure.

On 17 December 2001 Zotefoams plc borrowed \$4.2 million under a three year loan agreement, repayable in equal six monthly instalments. This facility is subject to covenants relating to net assets, total borrowings and cash flow.

Foreign currency risk

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

Fair values

The fair value of all financial assets and liabilities is not materially different from the carrying value. Therefore the fair value is not separately disclosed. At 31 December 2003 the Group had forward exchange contracts with a nil carrying value and a fair value, based on estimated market values, of £3.4 million (2002: £1.0 million).

22. Commitments

	2003 £000	2002 £000
(i) Capital contracts at the end of the financial year for which no provision has been made:	298	772
(ii) The Group has annual commitments under non-cancellable operating leases which expire		
– within one year:	73	67
– between two and five years:	117	181
(iii) As at 31 December the Group had foreign currency forward exchange contracts amounting to:	3,367	999

The above amounts apply to the Company as well as the Group apart from Capital Commitments which includes £200,000 (2002: £125,000) in respect of subsidiary undertakings.

23. Pension scheme

The Company operates a defined benefit pension scheme – the Zotefoams Pension Scheme (“the scheme”) providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company.

An actuarial review of the scheme was carried out as at 6 April 2002 by an independent qualified actuary. The assumptions which have the most significant effect on the results of the valuation are: discount rate – 6.75% p.a. pre-retirement/5.25% p.a. post-retirement; rate of future salary increases – 4.25% p.a.; rate of pension increases in payments – 2.50% p.a.; and price inflation – 2.75% p.a.

The valuation showed that the market value of the scheme’s assets was £10,082,000 which represented 94% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The total contributions payable by the Company was agreed to be 12.0% of pensionable salary to 1 March 2003 and 14.1% of pensionable salary thereafter. Employee contributions were increased from 5.0% to 6.5% of pensionable salary respectively.

The pension charge for the year was £468,837 (2002: £423,099) which represents the contributions paid by the scheme in respect of the members.

In addition there is a stakeholder scheme for UK employees who joined the Group after 1 October 2001. The contributions paid by the Company to the scheme was £8,965 (2002: £2,723).

For US based employees, Zotefoams Inc. and Zotefoams Fabrications Limited operate a 401(k) plan and a defined contribution pension plan to which Zotefoams Inc. and Zotefoams Fabrications Limited contribute 6.2% of pensionable salary.

Whilst the Group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 “Accounting for Pension costs”, under FRS 17 “Retirement benefits” the following transitional disclosures are required:

A full actuarial valuation was carried out at 6 April 2002 and updated by a qualified independent actuary on a FRS 17 basis to 31 December 2003. The major assumptions used by the actuary were as follows:

	At year end 31 December 2003 % p.a.	At year end 31 December 2002 % p.a.	At year end 31 December 2001 % p.a.
Rate of general increase in salaries	4.30	3.85	4.50
Rate of increase of pensions in payment	2.70	2.25	2.25
Discount rate	5.36	5.47	5.83
Inflation assumption	2.80	2.35	2.50

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the scheme’s assets, which are not intended to be realised in the short-term and may be subject to significant change before they are realised, and the present value of the scheme’s liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long-term rate of return 2003	Value at 31 December 2003 £000	Long-term rate of return 2002	Value at 31 December 2002 £000	Long-term rate of return 2001	Value at 31 December 2001 £000
Equities	7.80	8,452	7.52	6,579	7.95	7,875
Bonds	5.10	1,356	5.00	1,281	5.39	1,487
Other – Cash	3.75	258	4.00	324	4.50	414
		10,066		8,184		9,776
Present value of scheme liabilities		(14,884)		(11,497)		(9,897)
Deficit in the scheme		(4,818)		(3,313)		(121)
Related deferred tax asset		1,445		994		36
Net pension liability		(3,373)		(2,319)		(85)

Movement in deficit in scheme during the year

	At year end 31 December 2003 £000	At year end 31 December 2002 £000
Deficit in scheme at beginning of year	(3,313)	(121)
Current service cost	(452)	(503)
Contributions paid	469	423
Past service cost	—	—
Other finance (cost)/income	(53)	148
Actuarial loss	(1,469)	(3,260)
Deficit in the scheme at end of year	(4,818)	(3,313)

notes to the financial statements

23. Pension scheme (continued)

If FRS 17 had been fully adopted in these financial statements the pension costs for the defined benefit scheme would have been:

Analysis of other pension costs charged in arriving at operating profit

	2003 £000	2002 £000
Current service cost	452	503
Past service cost	—	—
	452	503

As the scheme is closed to new members the current service cost will increase, relative to pensionable payroll, as members of the scheme approach retirement.

Analysis of amounts included in other finance income/costs

	2003 £000	2002 £000
Expected return on pension scheme assets	585	737
Interest on pension scheme liabilities	(638)	(589)
	(53)	148

Analysis of amount recognised in statement of total recognised gains and losses

	2003 %	2003 £000	2002 %	2002 £000
Actuarial return less expected return on scheme assets		931		(2,646)
Percentage of year end scheme assets	9		(32)	
Experience gains and losses arising on scheme liabilities		(681)		(270)
Percentage of present value of year end scheme liabilities	(5)		(2)	
Changes in assumptions underlying the present value of scheme liabilities		(1,719)		(344)
Percentage of present value of year end scheme liabilities	(12)		(3)	
Actuarial loss recognised in statement of total recognised gains and losses	(10)	(1,469)	(28)	(3,260)

24. Reconciliation of operating profit to net cash inflow from operating activities

	2003 £000	2002 £000
Operating profit	1,095	7,899
Depreciation charge	3,157	3,084
Loss on disposal of assets	—	4
Decrease in stocks	75	120
Increase in debtors	(397)	(274)
(Decrease)/increase in creditors	(414)	121
Net cash inflow from operating activities	3,516	10,954

In 2002 £7.8 million was received from the insurers of which £6.9 million was allocated to revenue and the remainder to capital as described in note 3 to the accounts on page 29.

25. Analysis of changes in net (debt)/funds

	At 1 January 2003 £000	Cashflow £000	Translation differences £000	At 31 December 2003 £000
Cash at bank and in hand	372	(139)	(21)	212
Bank overdrafts	(7)	(2,860)	39	(2,828)
Obligations under finance leases	(295)	119	—	(176)
Bank loans	(1,745)	832	127	(786)
	(1,675)	(2,048)	145	(3,578)

notice of 2004 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 29 April 2004 at 10.00 a.m. for the following purposes:

Ordinary business

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

1. To receive and adopt the audited accounts and the Directors' and auditors report for the year ended 31 December 2003.
2. To receive and approve the Report on Directors' Remuneration for the year ended 31 December 2003.
3. To declare a final dividend for the year ended 31 December 2003 of 2.0p net per ordinary share, such dividend to be payable on 24 May 2004 to shareholders on the register at the close of business on 23 April 2004.
4. To re-elect Mr D B Stirling as a Director who retires by rotation.
5. To re-elect Mr C G Hurst as a Director who retires by rotation.
6. That KPMG Audit Plc be and are hereby re-appointed as auditors 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 at a remuneration to be fixed by the Directors.
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 £604,263 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 the following resolutions which will be proposed as special resolutions:

8. 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 £90,639,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 such expiry make such 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.

notice of 2004 annual general meeting

Special business (continued)

9. 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 3,625,577 (representing 10% of the Company's issued ordinary share capital);
 - (b) the minimum price which may be paid for such shares is 5p per share (exclusive of any applicable taxes and expenses);
 - (c) the maximum price (exclusive of any applicable taxes and expenses) which may be paid for an ordinary share shall not be more than 5% above the average of the market values for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary share is purchased;
 - (d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the Company's next 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.

By order of the Board

C G Hurst

Company Secretary
Zotefoams plc
Registered Office
675 Mitcham Road
Croydon CR9 3AL
8 March 2004

Notes

- (i) Shareholders are entitled to attend and vote at this meeting and may appoint one or more proxies to attend and on a poll, vote instead of him. A proxy need not be a member of the Company. A form of proxy is enclosed for the use of members and must reach the office of the Registrars of the Company not less than 48 hours prior to the start of the meeting.
- (ii) The appointment of a proxy will not prevent the member from subsequently attending and voting at the meeting in person.
- (iii) Copies of the following will be available for inspection at the registered office of the Company, 675 Mitcham Road, Croydon CR9 3AL during normal business hours from the date of the above Notice until the date of the Annual General Meeting and at the place of the meeting for 15 minutes prior to and until the termination of the Meeting:
 - (a) The Register of Directors' share interests; and
 - (b) Copies of executive Directors' service contracts.
- (iv) Only those members registered in the register of members of the Company as at 10.00 a.m. on 27 April 2004 will be entitled to attend or vote at the meeting in respect of the number of ordinary shares of 5p registered in their respective names at that time. Changes to entries on the register after 10.00 a.m. on 27 April 2004 will be disregarded in determining the rights of any person to attend or vote at the meeting.

five year trading summary

	2003 £m	2002 £m	Restated 2001 £m	2000 £m	1999 £m
Turnover	23.5	23.5	23.0	20.8	22.4
Operating profit (excluding exceptional items)	1.1	2.2	2.9	2.4	5.7
Profit before tax (excluding exceptional items)	1.0	2.0	2.8	2.3	5.8
Profit before tax (including exceptional items)	1.0	8.6	3.5	2.3	5.8
Profit after tax	0.7	6.0	3.3	1.8	4.1
Capital expenditure	1.6	5.2	6.1	6.1	2.7
Net cash flow from operating activities	3.5	11.0	0.8	5.5	7.7
Dividends per ordinary share (p)	4.5	7.5	7.5	7.5	7.5
Earnings per share excluding exceptional items (p)	2.0	4.0	5.6	4.8	11.2
Earnings per share including exceptional items (p)	2.0	16.6	9.0	4.8	11.2

financial calendar

Annual General Meeting	29 April 2004
Payment of final dividend	24 May 2004 to shareholders on the register at the close of business on 23 April 2004
Announcement of 2004 interim results	August 2004
Payment of interim dividend	September 2004
Announcement of 2004 results	March 2005

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 Pavillions, Bridgwater Road, Bristol, BS99 7NH.

Website

The Company has a website (www.zotefoams.com) which provides information on the business and products.

[Zotefoams plc](#)

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