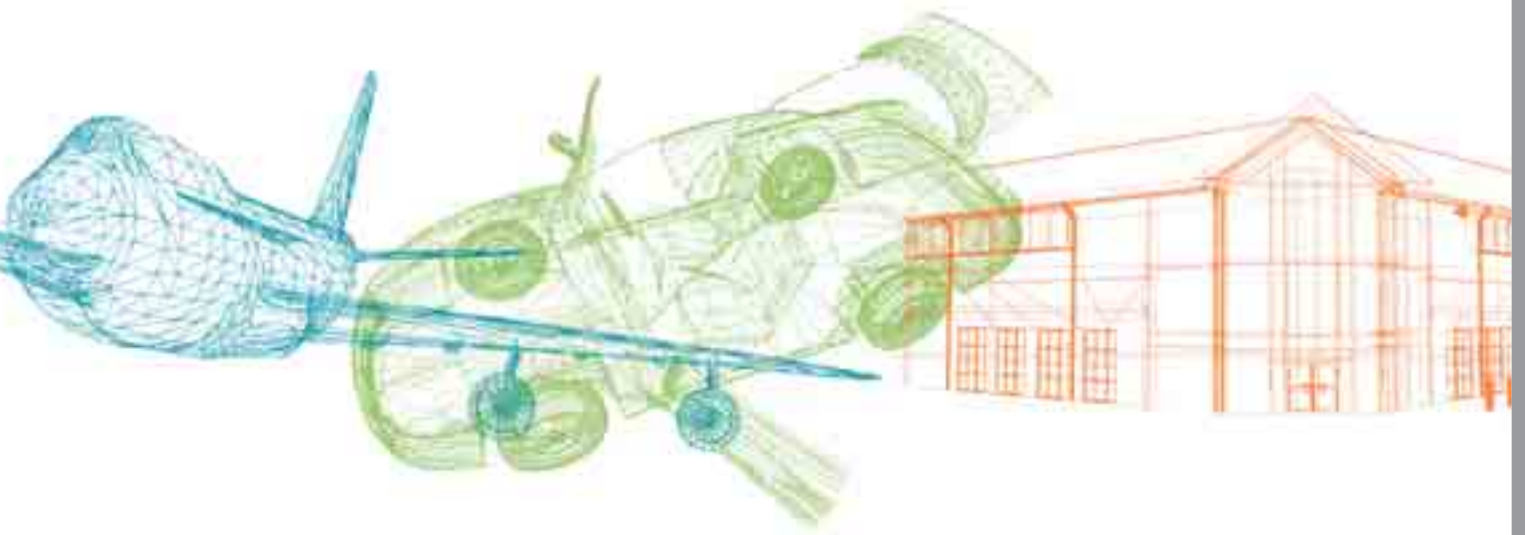




Zotefoams plc Annual report 2004

high performance foams for
specialist markets worldwide



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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.

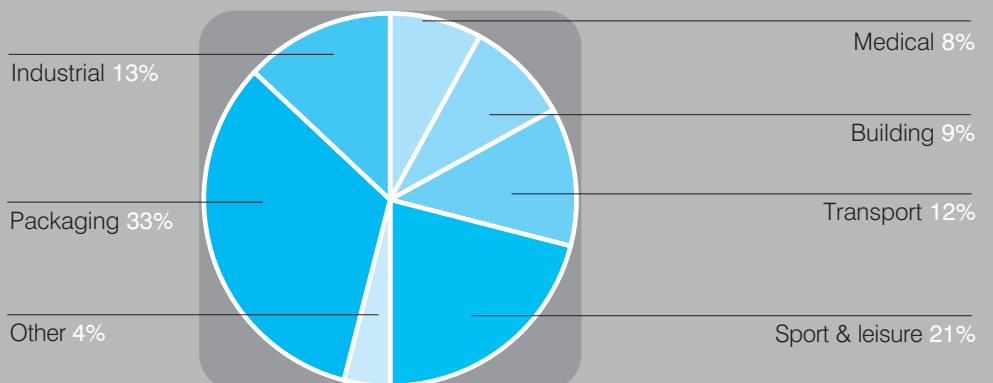
We grew sales by 7% and profit before tax by 39%.



Our strategy

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. Zotefoams' technology affords us many different opportunities with significant profit potential. To optimise these opportunities we must concentrate our own resources in key areas and leverage our unique capability where appropriate.

Breakdown of turnover by market sector



	2004	2003
Turnover (£m)	25.2	23.5
Operating profit (£m)	1.6	1.1
Profit before tax (£m)	1.3	1.0
Earnings per ordinary share (p)	3.3	2.0
Net cash inflow from operating activities (£m)	5.3	3.5
Net dividend per share (p)	4.5	4.5

Our objectives

We intend to grow sales in our core polyolefin foams business in excess of the rate of inflation in Europe and achieve double-digit percentage growth in North America and Asia. Our sales growth in America is supported by our factory in Kentucky which opened in mid 2001 while in Asia we will consider a similar operation, either as a license or joint venture, as sales increase to a level where such an investment is sensible. We are also committed to developing a portfolio of unique foam products from high-performance materials which will enjoy significant advantages over competitive materials, allow higher margins for Zotefoams and confirm our position as the pre-eminent foam technology company. We intend to achieve these while continuing to improve our return on capital employed through a more efficient use of assets and working capital and expect our net operating assets (excluding cash) to reduce further over the next few years while we continue to grow our sales.

Our achievements

During 2004 we grew sales by 7% and profit before tax by 39%. Our UK performance was flat in what continues to be a difficult market, while sales in Continental Europe grew 12% and North America grew 18% before the effect of exchange rate fluctuations which, primarily due to the US dollar reduced profit before tax by approximately £0.3 million after currency hedges. During 2004, we launched the first in a range of foams based on Kynar® PVDF under our new ZOTEK® brand name and progressed other projects for silicone and nylon foams to plant scale trials. Our return on capital employed, measured as EBITDA as a percentage of average net assets employed, was 16.7% up from 14.7% in 2003, as Group cash flow strengthened and we begin to see the positive impact of our large investment in North America.

The Directors are recommending a final dividend of 3.0p net per share payable on 24 May 2005 to shareholders on the Company register as at the close of business of 22 April 2005. This brings the total declared dividend to 4.5p for 2004 and is unchanged from the dividend declared for 2003.

Further, as announced on 14 January 2005, Zotefoams has received a very preliminary approach that may or may not lead to an offer being made for its entire issued share capital. A further announcement concerning this matter will be made in due course.

W H Fairservice

Chairman
7 March 2005

Our technical portfolio has a pipeline of products which we believe offers excellent potential for growth.



Our year

Results for 2004 showed a marked improvement following a difficult year in 2003. Sales growth of 7% to £25.2 million and operational improvements produced a 42% increase in operating profit and 50% increase in net cash inflow from operating activities. Earnings per share increased 65% to 3.3p (2003: 2.0p).

Overall sales growth of 7% was driven by growth in North America, France and Germany. In North America our dollar sales growth of 18% translated to 7% growth in sterling due to the weaker US dollar while, with the Euro at similar levels to last year, growth of 18% in France and 13% in Germany was achieved by closer contact with, and focus on, key customers.

Operational benefits were most apparent in our North American plant where management changes late in 2003 and early in 2004 provided additional focus on plant performance, product quality and cost control. The improvements at this plant, which takes solid materials from our UK plant for final expansion to foams, gave us sufficient confidence to place reliance on this facility to expand our full range of foam products resulting in significant freight savings. I am pleased to report that this plant is now operating at close to the levels which we routinely achieve in our UK facility and during 2004 set new production records in three different months as sales volumes increased 18% over 2003.

Production volume increases also lead to operational benefits in our Croydon plant where higher levels of capacity utilisation improved overhead recovery and profitability.

Rises in raw material prices reduced operating profits by approximately £0.3 million. Low density polyethylene (LDPE) is our major raw material and is subject to commodity pricing. This means that prices change frequently and, on occasion, quite significantly. In 2004 prices for LDPE began at levels moderately above our average price for 2003. However in September 2004 LDPE prices began to rise rapidly and continued to do so throughout the rest of the year. On average the price we paid for LDPE was 10% higher than in 2003. The most significant impact on the business was after October 2004 when margins were much tighter as LDPE rose above £600 per tonne for the first sustained time since 2000. This increase in the fourth quarter coincided with a very sharp increase in energy prices which we estimate increased our energy costs by approximately £0.1 million in the fourth quarter alone. Scheduled list price increases and a surcharge based on LDPE costs have been discussed with Zotefoams customers for implementation during the first quarter of 2005.

Zotefoams' business remains strongly cash generative with substantial investment in North America and the UK completed over the past five years. In 2004 depreciation was £3.4 million compared to capital expenditure of £1.3 million, which itself is at the lowest level for ten years. With significant excess and

Foam chosen for the following properties

purity

ease of processing

resistance to environmental exposure

performance to weight ratio

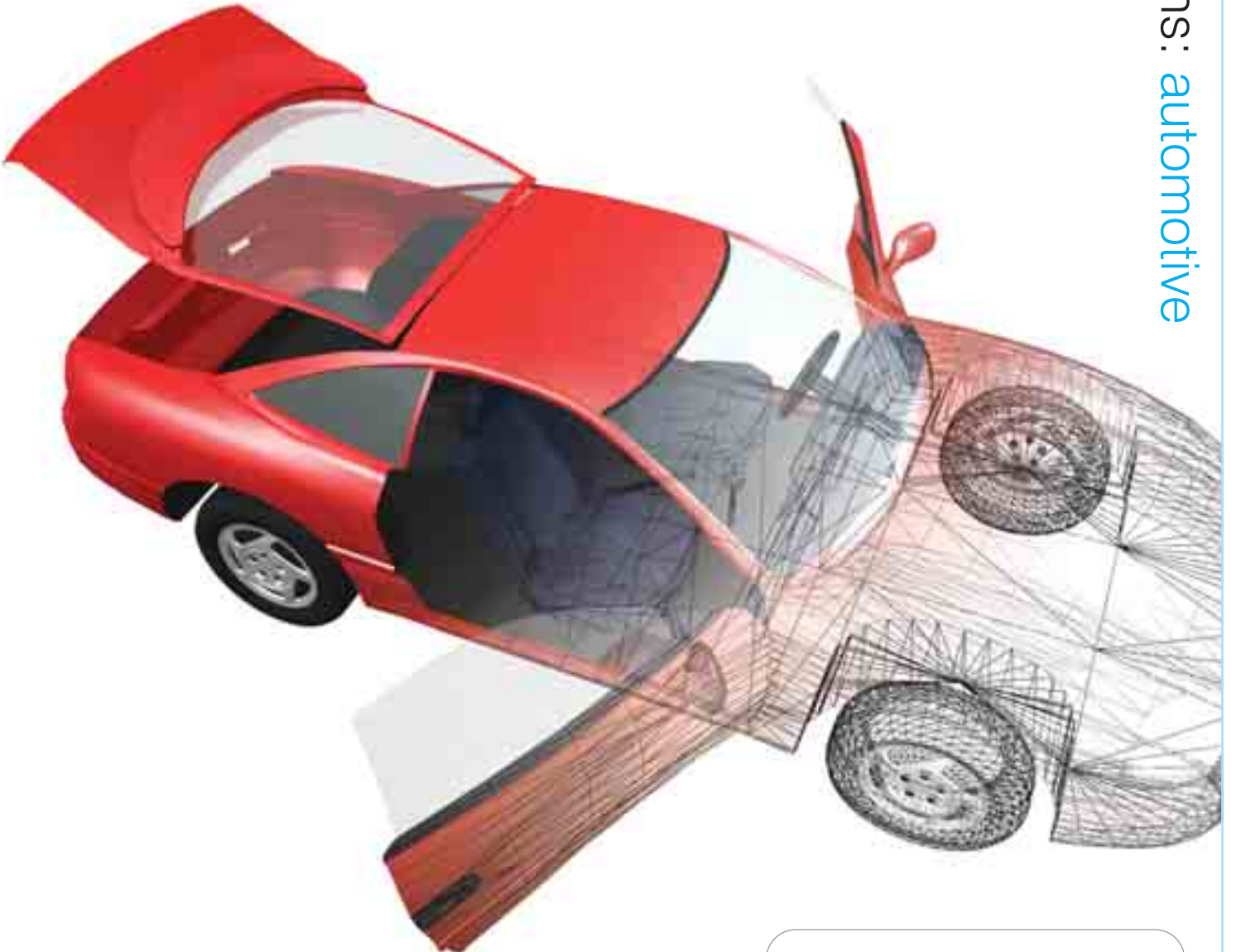
fire smoke toxicity (FST)

Existing materials

- Complex moulded wing mirror gaskets ●●●
- Anti-vibration gaskets ●●
- Weight bearing block support ●●
- Moulded tool kit holder ●●
- Rear view mirror gasket ●●

New materials

- Complex thermoformed seals for engine compartment ●●
- Engine compartment energy management systems ●●
- Thermoformed soft touch interiors ●●



flexible capacity at both our UK and North American facilities we anticipate capital expenditure, other than that identified in the development of new products, to be low for the foreseeable future.

Expenditure on research and development, all of which is charged against profits in the year of expenditure, increased by 16% to £734,000. During the year Zotefoams patented manufacturing processes, and applications of, PVDF foams. PVDF is a fluoropolymer with excellent fire, chemical and UV-light resistance and our foams, marketed under the ZOTEK[®] trademark are under evaluation in applications as diverse as aerospace, aviation, construction and semiconductor processing. Also during 2004 we developed processes to apply our unique technology to make foams from polyamide (nylon) and silicone. Patent applications were made for both of these developments early in 2005. We expect these foams to find applications in markets where high temperature resistance combined with other properties, predominantly sound and heat insulation, are needed. Overall during 2004 we made substantial progress in product development and I expect this to accelerate during 2005.

While sales of new products were negligible in 2004 we have a significant number of applications under development, some of which have been approved and sales orders received for shipment in 2005. We believe that developments of this type offer the potential of higher returns and diversification into new and fast growing markets. Zotefoams approach is to develop a portfolio of materials across a number of different markets to ensure a diversified product mix. We constantly review our projects, approach and resource allocation to ensure that we are focussing on the areas of greatest return. I consider these new products, and others which are at an earlier stage in our development efforts, to offer excellent potential for future growth and margin enhancement of our business.

Our marketplace

Zotefoams manufactures and sells crosslinked block foams used in a variety of markets and applications worldwide. An analysis of sales by major application areas is shown on page 2. Our major markets are in the UK and Western Europe, supplied from our Croydon, UK plant, and North America, supplied from our Walton, Kentucky plant.

Zotefoams have a worldwide sales and marketing alliance for polyolefin foams with the Sekisui Chemical Company Ltd, who act as exclusive agent and distributor in Continental Europe and Asia respectively. Sekisui also act as agent for certain customers in North America. Our new products such as PVDF, silicone and polyamide, fall outside the scope of these arrangements and are being marketed directly by Zotefoams to a diverse range of existing and new customers.

In the UK Zotefoams holds a high market share which means growth must come from the development of new market applications for our products. Although we work closely with customers in these areas the general UK industrial climate has a significant effect on our business. During 2004 sales increased by 1%, which has halted the declines seen in the past two years, in what continues to be a difficult economic climate for UK manufacturing industry. Increases in the packaging and construction segments offset some business decline in general industrial and marine segments.

In Germany sales increased 13% which was the fourth successive year of growth. This reflects another year of good performance by our main distributor and an increasing contribution from directly supplied accounts. Sales grew by 18% in France, recovering strongly after a decline in 2003, the majority of this growth coming from the sports and leisure market. Italy continues to be a difficult market with traditional business in footwear and lingerie declining due to consumer trends and moves by manufacturers to lower cost locations. Despite this sales in Italy

Foam chosen for the following properties

purity

ease of processing

resistance to environmental exposure

performance to weight ratio

fire smoke toxicity (FST)

Existing materials

- Specialised pipe jointing insulation ●●
- Eaves and ridge fillers for buildings ●●
- Glazing seals ●●



New materials

- Thermal and acoustic insulation in highly specified buildings ●●
- Fire rated seals ●●
- High specification insulation for institutional buildings ●●

grew by 3% through the development of new business in this important market. This is in contrast to Spain where loss of business due to market trends was not replaced at the necessary rate and we need additional focus in this area.

North America grew by 18% in both volumes and dollar value. Gains of business in the construction and automotive sectors were the principal drivers here. However, we also secured additional business in the sports and leisure and medical segments. All of this growth is supported from and made possible by our facility in Kentucky. We have now grown 64% since commissioning the plant in 2001 and expect further gains in this market, with sports and leisure, packaging and construction being the medium term focus.

Currently only 1% of turnover is in Asia. However we do have longer term ambitions in this region and know that there are significant opportunities for Zotefoams products here. We believe we do have good brand recognition in certain segments and our products can enjoy the same competitive advantage in Asia as they do in Europe and America. Ultimately we believe that a facility similar to our plant in Kentucky would be an attractive investment giving accelerated growth prospects, particularly as we can reduce the capital cost by using local suppliers while benefiting from our experience of such a project in the USA. To share risk and capital cost and to optimise sales it is our intention to enter into a joint venture or license for production in the Asian market.

Our business

Customers, employees and technology define our business. I would like to congratulate our employees for their efforts during 2004. Through their dedication, commitment and achievements we maintain customer satisfaction and this shows through in our sales growth for the year.

In the last five years Zotefoams generated £26.1 million operating cash inflow, paid £12.1 million in dividends and currently have a net debt of only £1.7 million. We have

rebuilt our site in Croydon following the fire in late 2000 and have established a significant business in North America which is growing strongly. Our technical portfolio has a pipeline of products which we believe offers excellent potential for growth in the future and has both patent and technology protection.

We therefore enter 2005 with a strongly cash generative business, well invested in capacity and with a series of options for the future in both our product portfolio and our market place.

D B Stirling
Managing Director
7 March 2005

With excess and flexible capacity we anticipate capital expenditure to be low for the foreseeable future.

Foam chosen for the following properties

purity

ease of processing

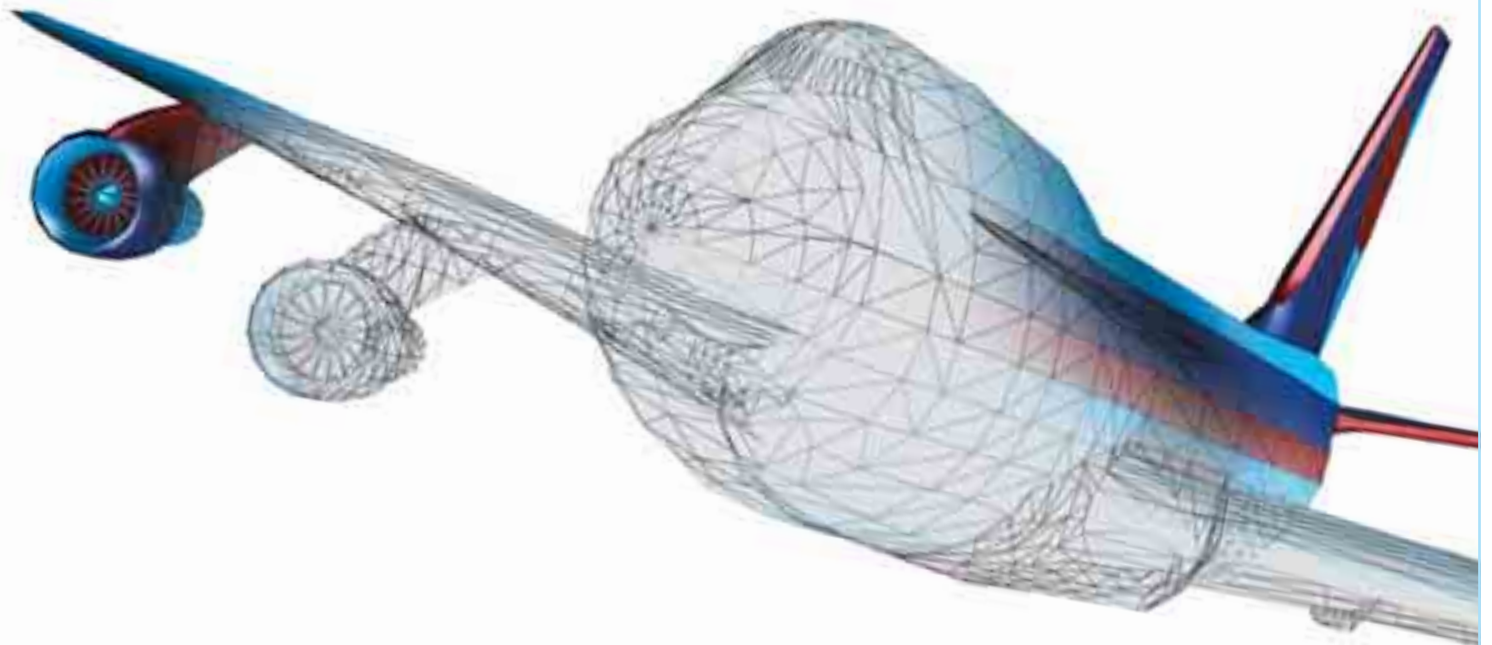
resistance to environmental exposure

performance to weight ratio

fire smoke toxicity (FST)

Existing materials

- Lightweight flame retardant insulation ●
- Vibration dampeners ●
- Seating and interior supports ●



New materials

- Thermal acoustic insulation and damping ●
- Soft touch interior trim ●
- High temperature seals and gaskets ●

The underlying strength of the business is its strong cash generation.



Analysis of capital expenditure (£ million)

	2000	2001	2002	2003	2004
Ongoing expenditure	1.6	0.8	1.9	1.4	1.3
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	1.3

Group turnover of £25.2 million was 7% higher than 2003. Gross margin was £5.5 million (10% higher) with an improved margin rate compared to 2003 (21.9% compared to 21.4% in 2003) in a difficult macro-economic environment. A weak US dollar reduced gross margin on North American sales by approximately £0.4 million, while high polymer prices also adversely affected profit by about £0.3 million compared to 2003. The average price of LDPE, our major raw material, increased from €770 per tonne in 2003 to €850 per tonne in 2004. Depreciation increased by £0.2 million. These adverse impacts on profit were partly offset by a reduction in freight costs to the USA due to operational improvements in the Group's American manufacturing operations.

Distribution and administration expenses were similar to 2003 and despite an increase in interest charges, profit before tax improved by 39% to £1.3 million in 2004 as most of the gross margin improvement flowed through to profit before tax.

Taxation

Corporation tax has been provided for at the rate of 30%. The Group tax charge is slightly below this due to research and development credits and taxable losses in North America. In addition 2004 benefited from a £0.2 million credit adjustment in respect of prior periods. This reduced the profit and loss account tax charge to £0.13 million which is 10% of pre-tax profits. Earnings per share consequently rose by 65% to 3.3p.

Cash flow and funding

The underlying strength of the business is its strong cash generation. With high depreciation EBITDA is £4.9 million (2003: £4.3 million) and net cash inflow from operating activities is £5.3 million. Capital expenditure of £1.3 million (2003: £1.6 million) is less than 50% of the Group depreciation charge following a period of major expenditure on a new plant in North America and replacing assets destroyed in a fire on the Croydon site in 2000. Limited capital expenditure requirements are foreseen in the next few years.

The Group therefore is strongly cash generative. Net debt was reduced from £3.6 million at the end of 2003 to £1.7 million at the end of 2004. With net assets of £28.8 million gearing is under 6%.

A final dividend of 3.0p net per share is proposed which brings the total declared dividend for the year to 4.5p, the same level declared for 2003.

Pensions

The Group has made the disclosures required under the transitional rules of FRS17 'Retirement Benefits' in respect of the defined benefit pension scheme for UK employees. Under these rules this pension fund had assets of £11.5 million and a present value of liabilities of £16.1 million as at 31 December 2004. This deficit of £4.6 million is a slight reduction from 2003 (£4.8 million). However, the tri-annual actuarial review of the fund is due on

6 April 2005 and it is likely to show a deterioration in the funding position since the date of the last review in April 2002 when the deficit was £0.6 million on an ongoing valuation basis. The importance of this review is that it determines the contribution rates required for the fund. Following this actuarial review the Company will discuss with the trustees and members the future strategy for the defined benefit scheme which has been closed to new entrants since 1 October 2001.

Treasury

With most of the costs in the business denominated in sterling and the majority of sales being in either euros or US dollars the Group has a significant foreign exchange exposure. The table alongside shows the extent of this currency exposure. While the average euro/sterling rate was similar to 2003 with a £0.1 million adverse impact, the US dollar weakened against sterling and this had an adverse impact on profit of approximately £0.3 million. This was partly offset by a £0.1 million gain from the Group's hedging policy.

The Board has defined policies and procedures relating to treasury management and accounting policies. These are designed to provide appropriate business support, consistency of reporting and to mitigate risk. Foreign currency hedges are used to reduce the foreign currency exposure on a proportion of the next six month's sales. Translation exposure is not hedged. Interest rates on borrowings are all based on variable rates plus a bank margin and are unhedged

Exchange rates

	2004		2003	
	Average	Year end	Average	Year end
US Dollar/Sterling	1.83	1.92	1.64	1.78
Euro/Sterling	1.47	1.41	1.45	1.42

Analysis of exposure to main currency groups

£ million equivalent
Incurred in:

	£	US\$	€	Total
Turnover	7.1	6.0	12.1	25.2
Cost of sales	(11.3)	(2.6)	(5.8)	(19.7)
Gross profit	(4.2)	3.4	6.3	5.5
Distribution costs	(1.0)	(0.8)	(0.1)	(1.9)
Administration expenses	(2.0)	—	—	(2.0)
Operating profit/(loss) for 2004	(7.2)	2.6	6.2	1.6
2003 operating profit/(loss)	(6.9)	1.9	6.1	1.1

as the interest rate risk is not, at present, considered material.

Accounting policies

Although no new accounting standards were adopted in 2004, International Accounting Standards became mandatory for all listed companies in the UK for accounting periods beginning on or after 1 January 2005. Accordingly the Group has adopted International Accounting Standards with effect from 1 January 2005. The Group plans to restate its 2004 accounts under these standards in June 2005, prior to publishing its interim results for the first six months of the year in August 2005.

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
7 March 2005

Directors and advisers



Bill Fairservice PhD BSc#

Non-executive Chairman, age 64

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 70

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 38

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 60

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 42

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.

He is non-executive Vice Chair of Harrow College of Further Education.

Roger Lawson FCA*†#

Non-executive Director and Chairman of the Audit Committee, age 59

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 58

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

Registered office

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Croydon CR9 3AL

Registered number

2714645

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London EC3A 6HA

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1 Forest Gate
Brighton Road
Crawley RH11 9PT

Bankers

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PO Box 544
City Service Centre
54 Lombard Street
London EC3V 9EX

Solicitors

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190 Strand
London WC2R 1JN

Collyer-Bristow

4 Bedford Row
London WC1R 4DF

Registrars

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

Corporate brokers

Evolution Securities Ltd
100 Wood Street
London EC2V 7AN

Directors' report

The Directors present their annual report and audited financial statements for the year ended 31 December 2004.

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 £1.2 million (2003: £0.7 million). An interim dividend of 1.5p (2003: 2.5p) net per share was paid on 23 September 2004. The Directors recommend that a final dividend of 3.0p (2003: 2.0p) net per share be paid on 24 May 2005 to shareholders who are on the Company's register at the close of business on 22 April 2005.

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 Dr W H Fairservice and Mr J C Marley who, being eligible, offer themselves for re-election. Dr Fairservice has a service contract which is terminable on twelve months written notice, and Mr Marley has a service contract terminable on six months written notice. Mr Marley intends to stand down from the Board in August 2005, on completing ten years service with the Company.

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 9001), Environmental (ISO 14001), Training (IIP) and Occupational Health and Safety (OHSAS 18001) approvals.

Substantial shareholdings

As at 7 March 2005 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%
Liontrust Asset Management Ltd	3,825,955	10.55%
Alveo AG (a subsidiary of Sekisui Chemical Co Ltd)	3,465,762	9.56%
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 £734,000 (2003: £635,000).

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 2004 trade creditors of the Company represented 33 days of purchases (2003: 36 days).

Share capital and reserves

There were no changes to the issued share capital during the year. Movements in reserves are shown in note 18 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 made \$2,000 of charitable contributions and no political contributions in 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

7 March 2005

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 2004 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 over three years 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 2004 this threshold was not met, however, given the external pressures on profit which arose in 2004 from adverse foreign exchange rates coupled with increases in raw materials and utilities, the Remuneration Committee deemed it appropriate to award a small discretionary bonus. This is the first bonus awarded by the Committee under the discretionary executive bonus scheme since it was introduced in 2001.

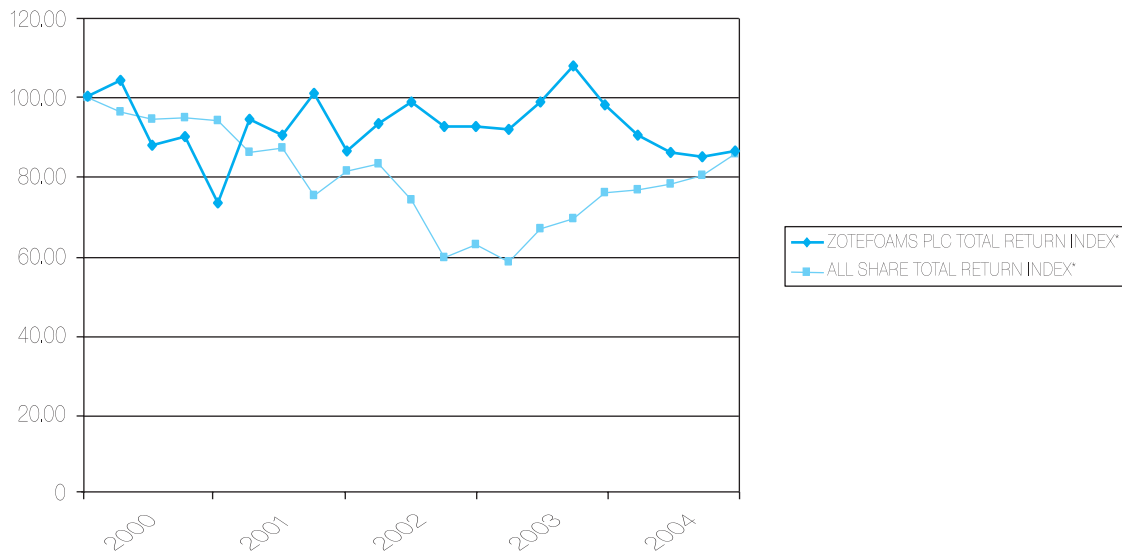
In addition executive Directors are eligible for a performance related payment under the Company's Profit Sharing Scheme which is open to UK based employees. The benefit attributable to participants each year is based on adjusting a pool of value in relation to the change in profit. For 2004 there was 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 2000. 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 2000 to December 2004)



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.

Report of the board of directors on directors' remuneration

INFORMATION SUBJECT TO AUDIT

Directors' emoluments

Remuneration in £	Basic salary /fees	Bonus	Car allowance	Other benefits	Total 2004	Comparable 2003
W H Fairservice	50,625	—	—	1,966	52,591	51,137
D B Stirling	118,310	4,000	11,232	734	134,276	127,254
A Eldrett	91,076	2,000	10,191	1,402	104,669	100,276
C G Hurst	85,437	2,000	10,191	1,024	98,652	92,762
R H Lawson	20,600	—	—	—	20,600	20,300
J C Marley	23,227	—	—	—	23,227	22,889
C J Ryan	20,059	—	—	—	20,059	19,769
	409,334	8,000	31,614	5,126	454,074	434,387

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.

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 2004	31 December 2003
W H Fairservice	1,087,250	1,086,820
D B Stirling	28,625	28,625
A Eldrett	938,358	938,358
C G Hurst	25,029	25,029
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:

Scheme	As at 31 December 2003	Granted	Lapsed	As at 31 December 2004	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
C G Hurst IRASOS	—	41,379	—	41,379	72.5p	7.4.2007	6.4.2014
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
D B Stirling**** Executive SOS	—	246,280	—	246,280	72.5p	7.4.2007	6.4.2014
C G Hurst**** Executive SOS	—	178,895	—	178,895	72.5p	7.4.2007	6.4.2014
A Eldrett**** Executive SOS	—	189,589	—	189,589	72.5p	7.4.2007	6.4.2014

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 ***, or the three year period ending 31 December 2006 indicated by ****.

Further conditions control the amount of shares available under these 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 relevant 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 2004 was 68.5p and the high and low prices during the year were 84.5p and 65.5p 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

The following Directors have accrued final salary benefits in the Zotefoams Pension Scheme over the last company year.

	Accrued pension in scheme at year end ⁽¹⁾ £	Gross increase in pension £	Increase in accrued pension net of inflation £	Value of accrued pension at year end ⁽²⁾ £	Value of accrued pension at start of year £	Total change in value over period less Directors contributions ⁽³⁾ £
W H Fairservice*	19,979	2,096	1,542	318,063	248,421	63,012
D B Stirling	12,473	2,021	1,697	58,639	43,245	8,815
A Eldrett	52,680	2,750	1,202	682,677	560,137	116,887
C G Hurst	5,758	1,546	1,415	31,645	20,645	5,715

* non-executive Director

Report of the board of directors on directors' remuneration

Directors' pension entitlements (continued)

Notes

- 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 increases for inflation.
- 2) Transfer values have been calculated in accordance with version 9.0 of guidance note GN11 issued by the Institute and Faculty of Actuaries, on the basis agreed with the Trustees of the Pension Scheme.
- 3) The change in the transfer value over the year includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors, such as changes in financial conditions. It is calculated after deducting the Directors' contributions.

The following is additional information relating to Directors' pensions:

- a) Members of the Scheme have the option of paying Additional Voluntary Contributions (AVCs). The value of these AVCs has been excluded from the above figures.
- b) Normal Retirement Age: 65
- c) Dependents pensions: a spouse's pension is payable on death in service equal to one-third of the member's annual salary at death, apart from CG Hurst where it would be one-half of the prospective pension that would have been payable at normal retirement date. On death after leaving service and before retirement, a spouses' pension is payable of one-half of the member's preserved pension at leaving, revalued from leaving to the date of death, in line with statutory revaluation increases. On death in retirement, a spouses' pension is payable of one-half of the member's pension at death, without reduction for any part of the member's pension surrendered for cash at retirement.
- d) Pension Increases: Members' Guaranteed Minimum Pensions increase at statutory rates. Other pensions increase at the lesser of 5% per annum or the increase in the Retail Price Index.

The report was approved by the Board of Directors on 7 March 2005 and signed on its behalf by:

J C Marley

Non-executive Director and Chairman of the Remuneration Committee
7 March 2005

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, Safety and 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 or materials are introduced and at regular periods thereafter. The most strictly controlled parts of our sites are where pressure is used.

Operating vessels at high pressures, Zotefoams is subject to the Pressure Systems Safety Regulations 2000 in the UK and OSHA in the US. Tightly defined procedures and operational controls are in place to manage the safety of our pressure systems. Fail-safe mechanisms known as Pressure Relief Valves (PRV's) and bursting disks, which are the equivalent of fuses in an electrical system, are designed and installed into our pressure systems. Failure of a PRV or bursting disk leads to depressurisation of sections of our system releasing nitrogen gas into the atmosphere and mitigating any further risks.

During the year the overall safety performance of the Group remained below desired levels. There were five reportable incidents – three in the UK and two in the US. However, the total number of injuries significantly reduced.

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 2004 the overall environmental performance of the Group improved, with a reduction of 50% in reported environmental incidents. The most frequently reported incident remains the 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 new Combined Code on Corporate Governance issued by the Financial Services Authority in July 2003 applies to accounting periods commencing on or after 1 November 2003. 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 as follows:

Board composition and responsibility

At the beginning of 2004 the Board structure comprised three executive Directors, three independent, non-executive Directors and a non-executive Chairman. There were no changes to the Board during the year, 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 and in 2004 seven formal Board meetings were held, with 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. During the year the Chairman met with the independent non-executive Directors without the executive Directors present.

Directors' remuneration

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

Board evaluation

A formal review of Board and Board Committee performance is carried out annually. The Chairman's performance is reviewed by the other non-executive Directors in consultation with the executive Directors. The other non-executive Directors' performance is evaluated by the Chairman in consultation with the executive Directors. Executive Directors' performance is reviewed by the Remuneration Committee in conjunction with the Chairman and the Managing Director, (except in the case of the Managing Directors' performance, when the Managing Director is not present).

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 2004 it met two times with full attendance at both 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 requires 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.

Risk identification

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

Information and communication

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

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

Control procedures

The Group has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties, reviews by management, and external audit to the extent necessary to arrive at their audit opinion. 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 26 to 42. 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 24 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 corporate governance statement on pages 22 to 23 reflects the Company's compliance with the nine provisions of the 2003 FRC 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 2004 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
7 March 2005

Consolidated profit and loss account

for the year ended 31 December 2004

	Note	2004 £000	2003 £000
Turnover	2	25,176	23,504
Cost of sales		(19,669)	(18,478)
Gross profit		5,507	5,026
Distribution costs		(1,871)	(1,884)
Administrative expenses		(2,080)	(2,047)
Operating profit		1,556	1,095
Other interest receivable and similar income	5	—	18
Interest payable and similar charges	6	(225)	(158)
Profit on ordinary activities before taxation	3	1,331	955
Tax on profit on ordinary activities	7	(130)	(219)
Profit for the financial year	9	1,201	736
Equity dividends – paid		(544)	(906)
Equity dividends – proposed		(1,087)	(725)
Total dividends paid and proposed	8	(1,631)	(1,631)
Retained loss for the financial year	18	(430)	(895)
Basic earnings per ordinary share	8	3.3p	2.0p
Diluted earnings per ordinary share	8	3.3p	2.0p

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 2004

	2004 £000	2003 £000
Profit for the financial year	1,201	736
Currency translation differences on foreign currency net investments	(576)	(860)
Total recognised gains and losses relating to the year	625	(124)

Consolidated balance sheet

as at 31 December 2004

	Note	2004		2003	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	10	29,795		32,375	
			29,795		32,375
Current assets					
Stocks	12	3,126		3,178	
Debtors	13	5,675		5,893	
Cash at bank and in hand		298		212	
			9,099	9,283	
Creditors: amounts falling due within one year	14	(4,651)		(7,263)	
Net current assets			4,448		2,020
Total assets less current liabilities			34,243		34,395
Creditors: amounts falling due after more than one year	15		(1,500)		(57)
Provisions for liabilities and charges	16		(3,913)		(4,502)
Net assets			28,830		29,836
Capital and reserves					
Called-up share capital	17, 18		1,813		1,813
Share premium account	18		13,707		13,707
Capital redemption reserve	18		5		5
Profit and loss account	18		13,305		14,311
Total shareholders' funds – equity	19		28,830		29,836

These financial statements were approved by the Board of Directors on 7 March 2005 and were signed on its behalf by:

W H Fairservice
Chairman

C G Hurst
Finance Director

Company balance sheet

as at 31 December 2004

	Note	2004		2003	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	10	23,787		25,728	
Investments	11	6,416		7,581	
			30,203		33,309
Current assets					
Stocks	12	2,274		2,365	
Debtors	13	5,373		5,041	
Cash at bank and in hand		65		—	
		7,712		7,406	
Creditors: amounts falling due within one year	14	(4,315)		(7,156)	
Net current assets			3,397		250
Total assets less current liabilities			33,600		33,559
Creditors: amounts falling due after more than one year	15		(1,500)		(57)
Provisions for liabilities and charges	16		(3,891)		(4,174)
Net assets			28,209		29,328
Capital and reserves					
Called-up share capital	17, 18		1,813		1,813
Share premium account	18		13,707		13,707
Capital redemption reserve	18		5		5
Profit and loss account	18		12,684		13,803
Total shareholders' funds – equity	19		28,209		29,328

These financial statements were approved by the Board of Directors on 7 March 2005 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 2004

	Note	2004		2003	
		£000	£000	£000	£000
Net cash inflow from operating activities	23		5,261		3,516
Returns on investments and servicing of finance					
Interest received		—		18	
Interest paid – bank and other		(230)		(89)	
– finance leases		(24)		(27)	
			(254)		(98)
Taxation					
Mainstream corporation tax		(506)		(1,103)	
Overseas tax		(14)		(57)	
			(520)		(1,160)
Capital expenditure					
Purchase of fixed assets		(1,331)		(1,614)	
Sale of fixed assets		1		27	
			(1,330)		(1,587)
Equity dividends paid			(1,269)		(2,719)
Cash inflow/(outflow) before financing			1,888		(2,048)
Financing					
Capital element of finance lease payments		(119)		(119)	
New borrowings		2,000		—	
Repayment of loan instalments		(851)		(832)	
			1,030		(951)
Increase/(decrease) in cash in the year			2,918		(2,999)

Reconciliation of net cash flow to movement in net debt

for the year ended 31 December 2004

	Note	2004 £000	2003 £000
Increase/(decrease) in cash in the year		2,918	(2,999)
Cash (inflow)/outflow from change in debt and lease finance		(1,030)	951
Change in net debt resulting from cash flows		1,888	(2,048)
Translation differences		31	145
Movement in net debt in the year		1,919	(1,903)
Net debt at the start of the year		(3,578)	(1,675)
Net debt at the end of the year	24	(1,659)	(3,578)

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 9).

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.

1. Accounting policies (continued)

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.

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. Revenue is recognised on the despatch of goods for which specific orders have been placed.

Cash

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

Notes to the financial statements

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
2004	6,985	3,022	4,345	4,397	5,909	518	25,176
2003	6,895	2,568	3,857	4,191	5,531	462	23,504

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

3. Profit on ordinary activities before taxation

	2004 £000	2003 £000
Profit on ordinary activities before taxation is stated:		
After charging		
Amounts payable under operating leases	75	74
Research and development costs	734	635
Auditors' remuneration:		
Audit: Group	66	64
Company	61	58
Other fees paid to the auditors and their associates – recurring	12	12
– non-recurring	37	32
	49	44
Depreciation and amortisation of fixed assets		
– owned assets	3,212	2,998
– leased assets	159	159
After crediting		
Net exchange gains	(108)	(168)

4. 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	
	2004	2003
Production	128	124
Maintenance	19	19
Distribution and marketing	33	29
Administration and technical	60	64
	240	236

4. Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2004 £000	2003 £000
Wages and salaries	6,415	6,328
Social security costs	589	508
Other pension costs	560	559
	7,564	7,395

Details of individual Directors' emoluments, pension costs and share options are dealt with on pages 18 to 20 in the Report of the Board on Directors' Remuneration.

5. Other interest receivable and similar income

	2004 £000	2003 £000
Interest on bank deposits	—	1
Interest on other deposits	—	17
	—	18

6. Interest payable and similar charges

	2004 £000	2003 £000
On bank loans and overdrafts	201	131
On finance leases	24	27
	225	158

7. Tax on profit on ordinary activities

	Note	2004 £000	2003 £000
UK corporation tax at 30% (2003: 30%)		871	291
Overseas taxation		24	45
Adjustment to prior year UK tax charge		(176)	52
Current taxation		719	388
Deferred taxation	16	(589)	(169)
Total tax charge		130	219

Notes to the financial statements

7. Tax on profit on ordinary activities (continued)

Factors affecting the tax charge for the current period

The current charge for the period is higher (2003: higher) than the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are explained below.

	2004 £000	2003 £000
Current tax reconciliation		
Profit on ordinary activities before tax	1,331	955
Current tax at 30% (2003: 30%)	399	287
Effects of:		
Research and Development tax credits less expenses not deductible for tax purposes	(28)	(25)
Depreciation in excess of Capital Allowances for period	327	58
Intra-group fixed asset movements	179	—
(Lower)/higher tax rates on overseas earnings	(17)	16
Intra-group stock movements	35	—
Adjustments to tax charge in respect of previous periods	(176)	52
Total current tax charge	719	388

8. Dividends and earnings per share

	2004 £000	2003 £000
Interim dividend of 1.5p (2003: 2.5p) net per 5p ordinary share	544	906
Proposed final dividend of 3.0p (2003: 2.0p) net per 5p ordinary share	1,087	725
	1,631	1,631
Dividends per ordinary share	4.5p	4.5p

Earnings per ordinary share

Earnings per ordinary share is calculated by dividing profit after tax of £1,201,000 (2003: £736,000) 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.

	2004	2003
Average number of ordinary shares issued	36,255,772	36,255,772
Deemed issued for no consideration	30,973	69,168
Diluted	36,286,745	36,324,940

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	
		2004	2003
4 April 2004	92.5p	—	64,864
24 April 2004	93.5p	—	301,603
21 August 2004	107.5p	—	125,580
1 June 2005	77.0p	177,475	212,540
20 August 2005	80.5p	654,494	654,494
18 March 2006	80.0p	872,865	872,865
7 April 2007	72.5p	1,130,034	—

The average fair value of one ordinary share during the year was considered to be 75.3p (2003: 83.5p).

9. 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 profit after tax for the financial year is £936,000 (2003 loss: £1,508,000).

10. 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 2004	14,275	36,336	2,088	52,699
Additions	256	964	75	1,295
Foreign exchange	(284)	(277)	(8)	(569)
Disposals	—	(54)	—	(54)
At 31 December 2004	14,247	36,969	2,155	53,371
Depreciation				
At 1 January 2004	2,478	16,374	1,472	20,324
Charge for the year	563	2,442	366	3,371
Foreign exchange	(32)	(51)	(6)	(89)
On disposals	—	(30)	—	(30)
At 31 December 2004	3,009	18,735	1,832	23,576
Net book value				
At 31 December 2004	11,238	18,234	323	29,795
At 31 December 2003	11,797	19,962	616	32,375
Company				
Cost				
At 1 January 2004	10,462	32,201	1,995	44,658
Additions	125	826	53	1,004
Disposals	—	(10)	—	(10)
At 31 December 2004	10,587	33,017	2,048	45,652
Depreciation				
At 1 January 2004	2,114	15,401	1,415	18,930
Charge for the year	416	2,186	338	2,940
On disposals	—	(5)	—	(5)
At 31 December 2004	2,530	17,582	1,753	21,865
Net book value				
At 31 December 2004	8,057	15,435	295	23,787
At 31 December 2003	8,348	16,800	580	25,728

Included in computer equipment and vehicles and total fixed assets above for both the Company and the Group is £79,000 (2003: £238,000) in respect of the net book value of assets held under finance leases.

Notes to the financial statements

11. Fixed asset investments

	Company	
	2004 £000	2003 £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)	(3,294)
Loan to Zotefoams Fabrications Limited	—	6,370
Loan to Zotefoams Inc.	5,205	—
	6,416	7,581

The investments consist of the entire ordinary share capital of Zotefoams International Limited and a \$10,000,000 loan to Zotefoams Inc.

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 – in voluntary liquidation

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 Inc. purchases and distributes cross-linked block foams and Zotefoams International Limited is a holding company. Zotefoams Fabrications Limited used to manufacture cross-linked block foams but these activities have been transferred to other group companies and Zotefoams Fabrications Limited is now in members' voluntary liquidation.

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.

12. Stocks

	Group		Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Raw materials and consumables	1,171	1,311	1,156	1,296
Work in progress	845	624	661	597
Finished goods and goods for resale	1,110	1,243	457	472
	3,126	3,178	2,274	2,365

13. Debtors

	Group		Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Amounts falling due within one year:				
Trade debtors	5,331	5,743	4,310	4,548
Amounts owed by Group undertakings	—	—	728	359
Other debtors	54	3	54	3
Prepayments and accrued income	290	147	281	131
	5,675	5,893	5,373	5,041

14. Creditors: amounts falling due within one year

	Group				Company			
	2004		2003		2004		2003	
	£000	£000	£000	£000	£000	£000	£000	£000
Bank overdrafts		—		2,828		—		2,828
Trade creditors		942		855		940		855
Other creditors including taxation and social security:								
Mainstream corporation tax	577		385		380		396	
Other taxation and social security	152		164		146		160	
		729		549		526		556
Other creditors		72		79		23		35
Obligations under finance leases		57		119		57		119
Bank loans		400		786		400		786
Accruals and deferred income		1,364		1,322		1,282		1,252
Dividends proposed		1,087		725		1,087		725
		4,651		7,263		4,315		7,156

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

	Group and Company	
	2004 £000	2003 £000
Finance leases:		
Amounts falling due in more than one year but less than two years	—	57
Bank loans (see note 20):		
Amounts falling due in more than one year but less than two years	400	—
Amounts falling due in more than two years but less than five years	1,100	—
	1,500	57

16. Provisions for liabilities and charges

	Deferred taxation	
	Group £000	Company £000
The Group and Company		
At 1 January 2004	4,502	4,174
Credit for the year in the profit and loss account	(589)	(283)
At 31 December 2004	3,913	3,891

Notes to the financial statements

16. Provisions for liabilities and charges (continued)

Deferred tax is provided as follows:

	Group		Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Difference between accumulated depreciation and amortisation and capital allowances	3,913	4,502	3,891	4,174
	3,913	4,502	3,891	4,174

Deferred tax is provided at a rate of 30% (2003: 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.

17. Share capital

	2004 £	2003 £
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 8 to the accounts on page 34.

18. 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 2004	14,311	5	13,707	1,813
Translation differences	(576)	—	—	—
Retained loss for year	(430)	—	—	—
At 31 December 2004	13,305	5	13,707	1,813
The Company				
At 1 January 2004	13,803	5	13,707	1,813
Translation differences	(424)	—	—	—
Retained loss for year	(695)	—	—	—
At 31 December 2004	12,684	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

19. Reconciliations of movements in shareholders' funds

	Group		Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Profit/(loss) for the financial year	1,201	736	936	(1,508)
Dividends	(1,631)	(1,631)	(1,631)	(1,631)
Retained loss for the financial year	(430)	(895)	(695)	(3,139)
Translation differences	(576)	(860)	(424)	(559)
Net reduction in shareholders' funds	(1,006)	(1,755)	(1,119)	(3,698)
Opening shareholders' funds	29,836	31,591	29,328	33,026
Closing shareholders' funds	28,830	29,836	28,209	29,328

20. 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 throughout the year.

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

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:

	2004			2003		
	Fixed rates £000	Variable rates £000	Total £000	Fixed rates £000	Variable rates £000	Total £000
Sterling	57	1,900	1,957	176	2,828	3,004
US dollar	—	—	—	—	786	786
	57	1,900	1,957	176	3,614	3,790

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 15 on page 37.

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

On 17 December 2004 Zotefoams plc paid the final instalment of the \$4.2 million three year loan agreement, which was repayable in equal six monthly instalments.

On 25 August 2004 Zotefoams plc borrowed £2.0 million under a five year mortgage, repayable in equal quarterly instalments. This facility is secured over specific plant assets.

Notes to the financial statements

20. Financial instruments (continued)

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 was the Group's policy in 2004 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 2004 the Group had forward exchange contracts with a nil carrying value and a fair value, based on estimated market values, of £4.9 million (2003: £3.4 million).

21. Commitments

	2004 £000	2003 £000
(i) Capital contracts at the end of the financial year for which no provision has been made:	115	298
(ii) The Group has annual commitments under non-cancellable operating leases which expire		
– within one year:	65	2
– between two and five years:	39	70
(iii) As at 31 December the Group had foreign currency forward exchange contracts amounting to:	4,934	3,367

The above amounts apply to the Company as well as the Group apart from Capital Commitments which includes £5,000 (2003: £200,000) in respect of subsidiary undertakings.

22. 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 £467,966 (2003: £468,837) which represents the contributions paid to 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 were £10,559 (2003: £8,965).

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.

22. Pension scheme (continued)

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 2004. The major assumptions used by the actuary were as follows:

	At year end 31 December 2004 % p.a.	At year end 31 December 2003 % p.a.	At year end 31 December 2002 % p.a.
Rate of general increase in salaries	4.40	4.30	3.85
Rate of increase of pensions in payment	2.50	2.70	2.25
Discount rate	5.30	5.36	5.47
Inflation assumption	2.90	2.80	2.35

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 2004	Value at 31 December 2004 £000	Long-term rate of return 2003	Value at 31 December 2003 £000	Long-term rate of return 2002	Value at 31 December 2002 £000
Equities	7.20	9,330	7.80	8,452	7.52	6,579
Bonds	4.94	1,599	5.10	1,356	5.00	1,281
Other – Cash	4.50	617	3.75	258	4.00	324
		11,546		10,066		8,184
Present value of scheme liabilities		(16,117)		(14,884)		(11,497)
Deficit in the scheme		(4,571)		(4,818)		(3,313)
Related deferred tax asset		1,371		1,445		994
Net pension liability		(3,200)		(3,373)		(2,319)

Movement in deficit in scheme during the year

	2004 £000	2003 £000
Deficit in scheme at beginning of year	(4,818)	(3,313)
Current service cost	(418)	(452)
Contributions paid	468	469
Past service cost	—	—
Other finance cost	(53)	(53)
Actuarial gain/(loss)	250	(1,469)
Deficit in the scheme at end of year	(4,571)	(4,818)

Notes to the financial statements

22. 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

	2004 £000	2003 £000
Current service cost	418	452
Past service cost	—	—
	418	452

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

	2004 £000	2003 £000
Expected return on pension scheme assets	753	585
Interest on pension scheme liabilities	(806)	(638)
	(53)	(53)

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

	2004 %	2004 £000	2003 %	2003 £000
Actuarial return less expected return on scheme assets		356		931
Percentage of year end scheme assets	3		9	
Experience gains and losses arising on scheme liabilities		—		(681)
Percentage of present value of year end scheme liabilities	—		(5)	
Changes in assumptions underlying the present value of scheme liabilities		(106)		(1,719)
Percentage of present value of year end scheme liabilities	1		(12)	
Actuarial gain/(loss) recognised in statement of total recognised gains and losses		250		(1,469)
Percentage of present value of year end scheme liabilities	2		(10)	

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

	2004 £000	2003 £000
Operating profit	1,556	1,095
Depreciation charge	3,371	3,157
Loss on disposal of assets	23	—
(Increase)/decrease in stocks	(13)	75
Decrease/(increase) in debtors	136	(397)
Increase/(decrease) in creditors	188	(414)
Net cash inflow from operating activities	5,261	3,516

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

	At 1 January 2004 £000	Cashflow £000	Translation differences £000	At 31 December 2004 £000
Cash at bank and in hand	212	85	1	298
Bank overdrafts	(2,828)	2,833	(5)	—
Obligations under finance leases	(176)	119	—	(57)
Bank loans	(786)	(1,149)	35	(1,900)
	(3,578)	1,888	31	(1,659)

Notice of 2005 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 28 April 2005 at 10.00a.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 2004.
2. To receive and approve the Report on Directors' Remuneration for the year ended 31 December 2004.
3. To declare a final dividend for the year ended 31 December 2004 of 3.0p net per ordinary share, such dividend to be payable on 24 May 2005 to shareholders on the register at the close of business on 22 April 2005.
4. To re-elect Dr W H Fairservice as a Director who retires by rotation.
5. To re-elect Mr J C Marley 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 2005 annual general meeting

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
7 March 2005

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 10.00a.m. on 26 April 2005 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 10.00a.m. on 26 April 2005 will be disregarded in determining the rights of any person to attend or vote at the meeting.

Five year trading summary

	2004 £m	2003 £m	2002 £m	Restated 2001 £m	2000 £m
Turnover	25.2	23.5	23.5	23.0	20.8
Operating profit (excluding exceptional items)	1.6	1.1	2.2	2.9	2.4
Profit before tax (excluding exceptional items)	1.3	1.0	2.0	2.8	2.3
Profit before tax (including exceptional items)	1.3	1.0	8.6	3.5	2.3
Profit after tax	1.2	0.7	6.0	3.3	1.8
Capital expenditure	1.3	1.6	5.2	6.1	6.1
Net cash flow from operating activities	5.3	3.5	11.0	0.8	5.5
Dividends per ordinary share (p)	4.5	4.5	7.5	7.5	7.5
Earnings per share excluding exceptional items (p)	3.3	2.0	4.0	5.6	4.8
Earnings per share including exceptional items (p)	3.3	2.0	16.6	9.0	4.8

There are no exceptional items for 2003 onwards.

Financial calendar

Annual General Meeting	28 April 2005
Payment of final dividend	24 May 2005 to shareholders on the register at the close of business on 22 April 2005
Announcement of 2004 interim results	August 2005
Payment of interim dividend	October 2005
Announcement of 2005 results	March 2006

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.



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