

Preliminary Results for the Year Ended 31 December 2007

Strong performance

Zotefoams plc, which manufactures and sells high-performance foams, today announces its preliminary results for the 12 months ended 31 December 2007. During 2007, Zotefoams continued investment in high-performance products under the ZOTEK® brand name complementing its strengths in polyolefin foams. ZOTEK® foams are used in a wide range of applications due to their light weight, fire-retardancy, good chemical resistance and temperature performance. ZOTEK® foams can be used in highly technical and demanding applications such as within the aerospace, pharmaceutical, semi-conductor and chemical processing industries thereby broadening the sales base outside of the traditional areas such as sport and leisure, premium packaging, construction, automotive and industrial goods.

FINANCIAL HIGHLIGHTS

- Revenue of £31.61 million (2006: £30.05 million), up 5%
- Operating profit of £3.46 million (2006: £2.84 million), up 22%
- Profit before tax of £3.37 million (2006: £2.67 million), up 26%*
- Operating margin improved from 9% in 2006 to 11%
- Strong balance sheet with gearing of 6% (2006: 6%)
- Proposed final dividend of 3.0p per share making a total for 2007 of 4.5p (2006: 4.5p)

*Excludes exceptional items. There were no exceptional items in 2007 but in 2006 there was a £1.07million exceptional charge

OPERATIONAL HIGHLIGHTS

- Strong sales growth, particularly in Europe and Asia
- High-performance polymers sales of £734,000, up 49%
- Long-term contract signed by one of Zotefoams' customers to supply parts fabricated from ZOTEK® F PVDF for the 737 - Boeing's highest volume passenger aircraft
- Distribution agreement signed to act as distributor in Europe and Asia for the T - Tubes ® brand of advanced insulation made from ZOTEK® F foams

Commenting on the results, Nigel Howard, Chairman, said:

"Zotefoams' strategy is to grow our existing business in polyolefin foams while developing a portfolio of high-performance polymers. We will seek to profitably expand through a combination of organically growing both our polyolefin and high-performance polymers businesses and through partnerships or acquisitions in related technologies, products or markets.

The polyolefin business performed well in 2007 and trading for the first two months in 2008 is in line with our expectations. Development of high-performance polymers continues to progress and offers many exciting opportunities. The Board continues to be positive about the future."

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INTRODUCTION

During 2007 we grew profit before tax and exceptional items by 26% to £3.37m (2006: £2.67m) and sales increased by 5% to £31.61m (2006: £30.05m). There were no exceptional items in 2007 (2006: a charge of £1.07m) and profit before tax after exceptional items was therefore £3.37m (2006: £1.60m). Sales growth in the second six months of the year was particularly pleasing with continued progress in Europe and Asia and a recovery seen in North America. Gross margins in 2007 increased to 27.1% (2006: 25.9%) and Group operating margins improved from 9% to 11% of sales. Our commitment to development of our high-performance products business was reinforced with a landmark deal with UFP Technologies of USA, a key Zotefoams customer, to act as distributor for their T-Tubes ® product line, made from our ZOTEK® fluoropolymer foam, in Europe and Asia.

We intend to grow sales in our core polyolefin business in excess of the rate of inflation in Europe and achieve double digit percentage growth in North America and Asia. Our sales growth in America is supported by our factory in Kentucky which opened in mid-2001 while in Asia we will consider a similar operation, either under a license or as a joint venture, as sales increase to a level where such an investment becomes financially attractive. We are also committed to developing a portfolio of unique foam products from high-performance materials which will enjoy significant advantages over competitive materials. This will allow higher margins for Zotefoams and confirm our position as the pre-eminent foam technology company. We intend to achieve this growth while continuing to improve our operating margins and our return on capital employed.

Chris Ryan, who joined Zotefoams in 1999 as a non-executive director, resigned from the Board effective 31 December 2007 after eight years service. On behalf of the Board I would like to thank Chris for his service and contribution over the years. On 23 July 2007 Richard Clowes joined the Board as a non-executive director. Richard is a chartered engineer with wide ranging operational and general management experience in supplying components to, amongst others, the aerospace and automotive markets. He was a main Board Director of GKN plc from 2001 to 2005. I am delighted to welcome Richard to the Board. With Richard, David Campbell (the ex-Chief Executive of British Vita) who joined the Board in February 2007 and Roger Lawson (who was a director of 3i) I believe that we have a strong and balanced team of non-executive directors to support the executive in moving the business forward.

We are proposing a maintained final dividend of 3.0p per ordinary share, which if approved, would make a total of 4.5p per ordinary share for the year (2006: 4.5p). At this level the dividend would be covered 1.5 times by post-tax earnings excluding one-off tax items. The Board's priority is to retain the capability to support the growth opportunities within the business while considering an improved dividend policy as dividend cover increases.

OUTLOOK

The polyolefin business performed well in 2007 and trading for the first two months in 2008 is in line with our expectations. Development of high-performance polymers continues to progress and offers many exciting opportunities. The Board continues to be positive about the future.

BUSINESS REVIEW

Zotefoams is the world's leading manufacturer of cross-linked block foams. Its products are used in a wide range of markets including sports and leisure, packaging, automotive, aerospace, healthcare, construction, marine and the military. Through a unique production process, the Company produces foams which have controlled properties and are of a strength, consistency, quality and purity superior to foams produced by other methods.

BUSINESS OVERVIEW

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

High-performance polymers use the processing technology developed for polyolefin foams and applies it to other materials. This is an emerging business which offers an improved return on capital in new business segments. We have developed, patented and launched world leading products made from fluoropolymer and nylon which are branded "ZOTEK®" - our high-performance foams' trademark. These foams are targeted at highly technical and demanding applications in markets such as aerospace, pharmaceutical, semi-conductor, chemical processing and automotive where market development lead times are long. The timing of revenue generation is therefore difficult to predict.

STRATEGY AND OBJECTIVES

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

Our stated objectives are to:

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

Performance in 2007 against these objectives was as follows:

1. Sales:
 - a. Polyolefin sales in the UK and Europe grew by 7% which was significantly above the average inflation rate.
 - b. Polyolefin sales in North America fell by 1% in constant currency. Polyolefin sales growth of 19% in the second half of 2007 compared to the second half of 2006 almost entirely reversed the decline seen in the first six months of the year.
 - c. Polyolefin sales in Asia grew by 96%. We stated that 2006 would be a year of transition, exiting a regional distribution agreement and forming more direct relationships with foam converters and end-users. The results for 2007 vindicate this approach and we believe that Asia offers significant potential for growth in niche, higher added-value products. We are therefore focusing our resources on these products and have recently recruited additional sales resource for this territory.
2. Sales of high-performance polymers grew by 49%. (59% after adjusting for movements in exchange rates).
3. Group operating margins, pre-exceptional items, improved from 9% to 11% of sales revenue.
4. Pre-tax return on capital employed, pre-exceptional items, increased from 11% to 13%

FINANCIAL RESULTS

The 5% increase in Group sales was mainly due to a 4% volume increase in polyolefin foams. Growth in high-performance polymer foams increased Group sales by 1%. Movements in

foreign currency exchange rates reduced sales by 2% although these were offset by price rises and changes in product mix. Gross margin increased to 27.1% from 25.9% with savings in sales commissions and manufacturing costs more than offsetting increases in raw material and energy prices.

Distribution costs (which include selling expenses) rose by 11% as we continued to increase our sales resources in both polyolefins and high-performance polymers. Administrative expenses are net of a foreign exchange gain of £0.23m (2006: loss of £0.15m). Profit before tax increased by 26% to £3.37m (2006: £2.67m before exceptional items). Profit before tax after exceptional items was £3.37m (2006: £1.60m).

The overall effective tax rate is 13% (2006: 26% before exceptional items). The decline was due to a £0.20m reduction in the Group's deferred tax liability following a change in the rate at which the Group's future corporation tax liabilities are provided for and a £0.23m favourable adjustment to the tax charge in respect of prior periods. Excluding these two items, the effective tax rate is 26%.

Earnings per share and Dividend

Group earnings per share after exceptional items were 8.0p (2006: 5.5p excluding exceptional items). The Directors are recommending that the final dividend is maintained at 3.0p per share payable on 22 May 2008 to shareholders on the Company register at 25 April 2008. This would bring the total dividend to 4.5p per ordinary share for the year (2006: 4.5p).

Cash Flow

Cash generated from operations was £4.78m (2006: £4.72m) after a £1.29m increase in working capital. The working capital increase reflected the higher sales activity in the second half of 2007 and the final instalment payment of £0.48m to terminate a distribution agreement (the termination cost was taken as an exceptional item in 2006). Capital expenditure of £2.69m was similar to last year. During the year the Company paid £0.24m to purchase 196,330 of its own shares. After the dividend payment of £1.64m the net cash outflow amounted to £0.25m, increasing net debt to £1.68m (2006: £1.43m). Gearing remains low at 6% (2006: 6%).

MARKETS AND OPERATIONS

In 2007 overall sales grew by 5% to £31.61m (2006: £30.05m).

The polyolefin foams business grew to £30.87m (2006: £29.56m). Overall the polyolefin foams market is relatively mature and growth comes from focused development in more specialist areas. Our sales and marketing approach recognises this and our sales teams work closely with customers to identify areas of opportunity and support them in their approach to these areas. This structure, with a direct sales organisation to service all customers, is showing good progress particularly in continental Europe where sales grew by 6% and Asia where sales grew by 96%. These areas, until March 2006, were managed by an agent and a distributor respectively and the cost of exiting these relationships was shown as an exceptional item in 2006. In the UK sales increased by 8% with a combination of volume growth and a stronger product mix. In North America, where our business has been affected by a weaker economy, sales declined by 1% in US dollars as sales growth of 19% in the second six months of the year offset the poor result in the first six months of 2007.

Our high-performance polymers ("HPP") are unique foams produced for technically demanding applications. They offer properties such as improved chemical resistance, fire-retardancy or temperature performance compared to other foam materials. The applications for these products are often much larger in value than a typical polyolefin foam application, however the performance requirements and test conditions are very demanding and evaluation can take many months or sometimes years. Therefore the inherent uncertainty of such projects, particularly their timing and the unique requirements of specific applications

which will vary from project to project makes projecting revenues and success rates extremely difficult, especially at this early stage of their development.

In 2007, HPP sales were £734,000, an increase of 49% over the previous year. The majority of these sales were ZOTEK® F fluoropolymer grades of foam in aerospace and clean-room insulation applications, although other projects are under development which use their unique combination of fire-retardancy, purity and chemical resistance. Particularly pleasing was a contract awarded in February 2008 to Technifab Inc., a long-standing customer based in Ohio USA, for supply of fabricated foam gaskets for the Boeing 737 programme. As our HPP business develops, we are investing significantly in both technical and marketing resource. During 2007 we increased sales and marketing expenditure to investigate and develop markets for our ZOTEK® N B50 polyamide (nylon) foam, a high temperature material with the capability to be heat moulded. Development of a second product in the ZOTEK® N range, with a softer feel for specific application requirements, is close to completion with launch anticipated in the next few months. In August 2007, we signed a distribution agreement with UFP Technologies Inc. under which Zotefoams will act as distributor in Europe and Asia for the T-Tubes® brand of advanced insulation made from a specific grade of ZOTEK® F foam which in October 2007 received an industry standard approval for clean room insulation use. This is significant partnership approach to development of a new market with a key customer where Zotefoams will act as the direct sales contact for an end-user market for the first time.

Zotefoams operates from two sites: Croydon UK and Northern Kentucky, USA. Our site in Kentucky receives intermediate materials from the UK and processes them into Azote® polyolefin foams for the North American market. From our Croydon site we supply Azote® foams to all locations outside North America, intermediate Azote® products to our "satellite foaming plant" in Kentucky and ZOTEK® foams for worldwide sale. With sufficient capacity in Kentucky for the foreseeable future our capital program for capacity increases and process capability enhancement is focused on our Croydon plant. During 2007 we spent £2.69m on capital expenditure which included the completion of the refurbishment and upgrade of another of our large high-pressure vessels. This reduces to approximately 20% the proportion of our high-pressure capacity which operates on a water-cooling mechanism where corrosion accelerates the need for refurbishment. There remains one large high-pressure vessel which has not been refurbished and, as part of an ongoing programme to minimise the risks associated with corrosion, this vessel will be removed from production and inspected within the next few months.

Our major raw materials are commodity polymers and therefore are subject to rapid and sometimes large price movements. However in 2007 the price of low density polyethylene, by far our largest raw material cost, remained relatively stable during the year with Euro prices averaging a 2.6% increase over 2006.

Purchasing bulk raw materials in Euros helps to offset the natural currency exposure of the business where we typically sell in the currency of the customer. As approximately 75% of our sales are to non-UK customers, denominated mainly in Euro and US Dollars, we are exposed to foreign exchange movements. The Group experienced adverse movements in average exchange rates before currency hedging during 2007. At the average rates effective in 2006, sales would have been approximately £0.5m higher and operating profit approximately £0.4m higher. This was partly offset by a £0.2m foreign exchange gain in administrative costs which includes the effects of the Group's hedging policy.

Energy costs have a significant impact on our business with energy costs amounting to 7% of Group sales. In March 2007 we renewed our UK energy contract fixing prices for two years from 1 December 2007 to 30 November 2009 allowing certainty of input prices on which to base our relationship with customers.

ZOTEK® and Azote® are registered trademarks of Zotefoams plc
T-Tubes® is a registered trademark of UFP Technologies Inc. See www.t-tubes.com

Consolidated Income Statement

for the year ended 31 December 2007

		2007	Pre- exceptional items £000	Exceptional items (see note 4) £000	2006 Post- exceptional items £000
	Note	£000			
Revenue	2	31,606	30,052	—	30,052
Cost of sales		(23,035)	(22,257)	—	(22,257)
Gross profit		8,571	7,795	—	7,795
Distribution costs		(2,344)	(2,117)	—	(2,117)
Administrative expenses		(2,766)	(2,842)	(1,074)	(3,916)
Operating profit		3,461	2,836	(1,074)	1,762
Financial income	5	1,063	884	—	884
Finance costs	5	(1,152)	(1,047)	—	(1,047)
Profit before tax		3,372	2,673	(1,074)	1,599
Taxation	6	(454)	(682)	322	(360)
Profit for the year	3	2,918	1,991	(752)	1,239
Attributable to: Equity holders of the parent		2,918	1,991	(752)	1,239
Earnings per share					
Basic (p)	7	8.0			3.4
Diluted (p)	7	7.9			3.4

**Consolidated statement of recognised income and expense
for the year ended 31 December 2007**

	2007	2006
	£000	£000
Foreign exchange translation differences on investment in foreign subsidiary	(117)	(905)
Effective portion of changes in fair value of cash flow hedges net of recycling	(269)	163
Actuarial gains on defined benefit schemes	1,141	426
Tax on items taken directly to equity	(271)	(159)
Net income/(expense) recognised directly in equity	484	(475)
Profit for the year	2,918	1,239
Total recognised income and expense for the year	3,402	764
Attributable to equity holders of the parent	3,402	764

**Consolidated balance sheet
as at 31 December 2007**

2007 2006

	Note	£000	£000
Non-current assets			
Property, plant and equipment		26,436	27,018
Deferred tax assets		138	99
Total non-current assets		26,574	27,117
Current assets			
Inventories		4,280	3,785
Trade and other receivables		7,351	6,163
Cash and cash equivalents		258	82
Total current assets		11,889	10,030
Total assets		38,463	37,147
Equity			
Issued share capital		(1,820)	(1,816)
Share premium		(13,941)	(13,753)
Capital redemption reserve		(15)	(5)
Translation reserve		752	635
Hedging reserve		185	(84)
Retained earnings		(11,827)	(9,815)
Total equity attributable to the equity holders of the Company		(26,666)	(24,838)
Non-current liabilities			
Interest-bearing loans and borrowings		(300)	(700)
Employee benefits	9	(2,465)	(4,240)
Deferred tax liabilities		(2,699)	(2,764)
Total non-current liabilities		(5,464)	(7,704)
Current liabilities			
Interest-bearing loans and borrowings		(400)	(400)
Bank overdraft		(1,242)	(411)
Tax payable		(561)	(307)
Trade and other payables		(4,130)	(3,487)
Total current liabilities		(6,333)	(4,605)
Total liabilities		(11,797)	(12,309)
Total equity and liabilities		(38,463)	(37,147)

**Consolidated cash flow statement
for the year ended 31 December 2007**

	£000	£000
Cash flows from operating activities		
Profit for the year	2,918	1,239
Adjustments for:		
Depreciation, amortisation and impairment	3,129	3,251
Gain on sale of plant and equipment	(9)	—
Financial income	(1,063)	(884)
Financial expense	1,152	1,047
Equity-settled share-based payments	91	64
Taxation	454	360
Operating profit before changes in working capital	6,672	5,077

and provisions		
Increase in trade and other receivables	(1,287)	(107)
(Increase)/ decrease in inventories	(504)	51
Increase in trade and other payables	498	314
Decrease in provisions and employee benefits	(600)	(619)
Cash generated from the operations	4,779	4,716
Interest paid	(138)	(126)
Tax paid	(564)	(823)
Net cash from operating activities	4,077	3,767
Proceeds on disposal of property, plant and equipment	22	3
Interest received	17	8
Acquisition of property, plant and equipment	(2,692)	(2,641)
Net cash used in investing activities	(2,653)	(2,630)
Proceeds from the issue of share capital	202	—
Repurchase of own shares	(242)	—
Repayment of borrowings	(400)	(400)
Dividends paid	(1,637)	(1,634)
Net cash used in financing activities	(2,077)	(2,034)
Net decrease in cash and cash equivalents	(653)	(897)
Cash and cash equivalents at 1 January	(329)	432
Effect of exchange rate fluctuations on cash held	(2)	136
Cash and cash equivalents at 31 December	(984)	(329)

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

1. Accounting policies

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

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group').

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

The financial information does not constitute the Company's statutory accounts for the year ended 31 December 2007 or 2006 but is derived from those accounts. Statutory accounts for 2006 have been delivered to the Registrar of Companies, and those for 2007 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under Section 237 (2) of the Companies Act.

2. Segment reporting

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

- Polyolefins: these foams are made from olefinic homopolymer and copolymer resin. The most common resin used is polyethylene.
- High-performance polymers (HPP): these foams exhibit high-performance on certain key properties, such as improved chemical, flammability or temperature performance, due to the resins on which they are based. Turnover in the segment is currently mainly derived from

our ZOTEK® F foams made from PVDF fluoropolymer. Other polymers either commercially launched or being assessed in development include polyamide (nylon).

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

	Note	Polyolefins		HPP		Consolidated	
		2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000
Revenue		30,872	29,558	734	494	31,606	30,052
Pre-exceptional profit/(loss)		4,001	3,369	(540)	(533)	3,461	2,836
Exceptional items	4	—	(1,074)	—	—	—	(1,074)
Post-exceptional profit/(loss)		4,001	2,295	(540)	(533)	3,461	1,762
Net financing costs						(89)	(163)
Taxation						(454)	(360)
Profit for the year						2,918	1,239
Segment assets		36,434	35,716	1,891	1,332	38,325	37,048
Unallocated assets		—	—	—	—	138	99
Total assets						38,463	37,147
Segment liabilities		(8,370)	(9,123)	(167)	(115)	(8,537)	(9,238)
Unallocated liabilities		—	—	—	—	(3,260)	(3,071)
Total liabilities						(11,797)	(12,309)
Depreciation		3,093	3,188	36	63	3,129	3,251
Capital expenditure		2,600	2,287	92	354	2,692	2,641

Geographical segments

	UK and Eire £000	Europe £000	North America £000	Rest of the World £000	Total
For the year ended 31 December 2007					
Revenue from external customers	8,180	15,249	7,131	1,046	31,606
Segment assets	30,881	—	7,582	—	38,463
Capital expenditure	2,622	—	70	—	2,692
For the year ended 31 December 2006					
Revenue from external customers	7,543	14,391	7,504	614	30,052
Segment assets	29,746	—	7,401	—	37,147
Capital expenditure	2,574	—	67	—	2,641

3. Expenses and auditors' remuneration

2007	2006
£000	£000

Included in profit for the year are:		
Research and development costs expensed	803	924
Net exchange (gains)/ losses	(227)	147
Auditors' remuneration:		
Group	84	80
– audit of these financial statements		
– fees receivable by the auditors and their associates in respect of other services:		
– other services pursuant with legislation	18	18
– other services relating to taxation	11	5
	113	103

4. Exceptional items

In 2006 the Company classified the following items as exceptional:

Bid costs

Relating to legal, advisory and other costs incurred in respect of a preliminary approach for the share capital of the Company which was announced in January 2005 and terminated in November 2005.

Commercial agreement termination costs

Relating to the termination payment, legal, advisory and other costs to end the commercial relationship with the Sekisui Group which was announced in March 2006.

Tax adjustment to exceptional items in prior year

	2007	2006
	£000	£000
Bid costs	-	30
Commercial agreement termination	-	(1,104)
Exceptional items before taxation	-	(1,074)
Tax on above	-	322
Exceptional items after taxation	-	(752)

5. Finance income and costs

Financial income

	2007	2006
	£000	£000
Interest on bank deposits	17	8
Expected return on assets of defined benefit pension fund	1,046	876
	1,063	884

Finance costs

	2007	2006
	£000	£000
On bank loans and overdrafts	140	125
Interest on defined benefit pension obligation	1,012	922

	1,152	1,047
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6. Taxation

	2007 £000	2006 £000
UK corporation tax	904	484
Overseas taxation	(5)	6
Adjustment to prior year UK tax charge	(81)	(60)
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Current taxation	818	430
Deferred taxation	(364)	(70)
	<hr/>	<hr/>
Total tax charge	454	360
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Factors affecting the tax charge

The tax charge for the period is lower (2006: lower) than the standard rate of corporation tax in the UK of 30% (2006: 30%). The differences are explained below:

	2007 £000	2006 £000
Tax reconciliation		
Profit on ordinary activities before tax	3,372	1,599
	<hr/>	<hr/>
Tax at 30% (2006: 30%)	1,011	480
Effects of:		
Research and development tax credits less expenses not deductible for tax purposes	(39)	(53)
Deferred tax rate change from 30% to 28%	(204)	—
Partial recognition of US tax losses	(32)	(1)
Lower tax rates on overseas earnings	(51)	(6)
Adjustments to UK corporation tax charge in respect of previous periods	(81)	(60)
Adjustments to deferred tax charge in respect of previous periods	(150)	—
	<hr/>	<hr/>
Total tax charge	454	360
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In June 2007 a reduction in the UK tax rate from 30% to 28%, which will be effective from 1 April 2008, was substantially enacted. In accordance with IAS12 Income Taxes, the deferred tax liability and assets have been calculated using a rate of 28%

7. Dividends and earnings per share

	2007 £000	2006 £000
Final dividend prior year of 3.0p (2006: 3.0p) net per 5.0p ordinary share	1,090	1,087
Interim dividend of 1.5p (2006: 1.5p) net per 5.0p ordinary share	547	547
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Dividends paid during the year	1,637	1,634
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The proposed final dividend for the year ended 31 December 2007 of 3.0p per share (2006: 3.0p) is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

Earnings per ordinary share

Earnings per ordinary share is calculated by dividing profit after tax of £2,918,000 (2006: £1,239,000) 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 IAS 33.

	2007	2006
Average number of ordinary shares issued	36,375,270	36,319,924
Deemed issued for no consideration	692,568	339,875
Diluted	37,067,838	36,659,799

Shares deemed issued for no consideration have been calculated based on the potential dilutive effect of the Executive Share Option Scheme, options granted under the HMRC Approved Share Option Scheme and Long Term Incentive Plans:

Date from which exercisable	Exercise price	Number of shares under option	
		2007	2006
7 April 2007	72.5p	152,834	1,130,034
22 December 2008	77.0p	1,026,320	1,026,320
27 March 2009	80.5p	—	111,801
10 May 2010	Nil	306,959	—
		1,486,113	2,268,155

The average fair value of one ordinary share during the year was considered to be 113.6p (2006: 88.3p).

8. Financial instruments

Policy

The Group's principal financial instruments include bank loans, cash and short-term deposits the main purpose of which is to raise finance for the Group's operations. Foreign exchange derivatives are used to help manage the Group's currency exposure. It is and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

In 2007 and 2006, the Group had credit insurance to mitigate this risk. However, not all the exposure is covered so elements of risk remain.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the Balance Sheet.

Interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings. The Group borrows in the desired currency generally at a variable rate of interest.

The interest rate profile of the Group's borrowings at 31 December was:

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

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

(continued from table above)

	Effective interest rate	Fixed rates £000	Variable rates £000	2006 Total £000
Sterling	6%	—	1,511	1,511
		—	1,511	1,511

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

Liquidity risk

The Group's objective is to maintain a balance of continuity of funding and flexibility through the use of overdrafts, loans and finance leases as applicable.

The Group has a short-term facility of £5m which is freely transferable and convertible into sterling.

This facility expires at the end of April 2008 and is utilised by Zotefoams plc and its subsidiary undertakings under a cross-guarantee structure.

On 25 August 2004 Zotefoams plc borrowed £2.0m under a five year mortgage, repayable in equal quarterly instalments. This facility is secured over specific plant assets. At 31 December 2007 £0.7m of this mortgage was outstanding and £1.3m had been repaid.

Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases, assets and liabilities which are denominated in a currency other than sterling. The currencies giving rise to this risk are primarily the euro and the US dollar.

The euro and US dollar rates used in preparing the accounts are as follows:

	Average	2007 Closing	Average	2006 Closing
Euro/sterling	1.46	1.36	1.47	1.48
US dollar/sterling	2.00	1.99	1.85	1.96

The Group hedges a proportion of its estimated cash exposure in respect of trade and other receivables, trade and other payables and forecast sales receipts and purchase payments for the next nine months. The Group uses forward exchange contracts to hedge its foreign currency risk. As at 31 December 2007 these forward currency contracts covered approximately two-thirds of the estimated net cash foreign exchange exposure for the next nine months. Further details are shown below in the paragraph on sensitivity analysis.

In respect of other monetary assets and liabilities held in currencies other than the euro and the US dollar, the Group ensures that the net exposure is kept to a manageable level, by

buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Forecasted transactions

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value. The net fair value of forward exchange contracts used as hedges of forecasted transactions at 31 December 2007 was a net liability of £185,000 (2006: net asset of £84,000) comprising assets of £8,000 (2006: £85,000) and liabilities of £193,000 (2006: £1,000) that were recognised in fair value derivatives in 2007.

Recognised assets and liabilities

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the Income Statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of administrative expenses (see note 3).

Sensitivity analysis

In managing currency risks the Group aims to reduce impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

Short-term fluctuations in interest rates are not hedged as the Group, at present, does not consider them material. At 31 December 2007 it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before tax by approximately £19,000 (2006: £15,000).

At 31 December 2007 it is estimated that an increase of one percentage point in the value of sterling against the euro and US dollar would decrease the Group's profit before tax by approximately £67,000 (2006: £64,000) before forward exchange contracts and £33,000 (2006: £44,000) after forward exchange contracts are included for the euro and £52,000 (2006: £47,000) for the US dollar before forward exchange contracts and £24,000 (2006: £30,000) after forward exchange contracts are included.

Sensitivity analysis continued

The Group has significant undertakings in the USA whose revenue and expenses are denominated in US dollars.

Zotefoams makes a significant proportion of its sales to European customers and these revenues are predominantly in euros. It was the Group's policy in 2007 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 values together with the carrying amounts shown in the Balance Sheet are as follows:

	Carrying amount £000	2007 Fair value £000	Carrying amount £000	2006 Fair value £000
Trade and other receivables	<u>7,343</u>	<u>7,343</u>	<u>6,078</u>	<u>6,078</u>
Cash and cash equivalents	<u>(984)</u>	<u>(984)</u>	<u>(329)</u>	<u>(329)</u>
Forward exchange contracts				
– assets	8	8	85	85
– liabilities	(193)	(193)	(1)	(1)
Secured bank loans	<u>(700)</u>	<u>(700)</u>	<u>(1,100)</u>	<u>(1,100)</u>
Trade and other payables	<u>(3,937)</u>	<u>(3,937)</u>	<u>(3,486)</u>	<u>(3,486)</u>

Estimation of fair values

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

Derivatives

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

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

Carrying amounts equals the fair value.

9. Employee benefits

The Group and Company operate one defined benefit scheme in the UK which offers both pensions in retirement and death benefits to members. Pension benefits are related to the members' final salary at retirement and their length of service. Since 1 October 2001 the scheme has been closed to new members.

From 31 December 2005 future accrual of benefits for existing members of the scheme ceased.

Contributions to the plan for the year from the Company have been agreed with the Trustees at £50,000 per month from January 2006 to December 2010.

The Company has opted to recognise all actuarial gains and losses immediately via the Statement of Recognised Income and Expenditure (SORIE). An actuarial valuation of the scheme was carried out as at 5 April 2005 and the results have been updated to 31 December 2007 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	As at 31 December 2007	As at 31 December 2006
Discount rate	5.90%	5.10%
Expected return on plan assets	6.62%	6.58%
Rate of salary increase	n/a	n/a
Rate of increase to pensions in payment	3.30%	3.00%
Rate of inflation	3.40%	3.10%
Mortality assumption	PA92 MC	90% of PA92
Life expectancy from age 65 of current male pensioners:	22.5 years	20.7 years

The overall expected return on assets assumption of 6.62% as at 31 December 2007 has been derived by calculating the weighted average of the expected rate of return for each asset class. The following approach has been used to determine the expected rate of return for each asset class:

- Equities - allowance for an additional return of 2.5% above that available on gilts;
- Gilts - derived from the yield on 15-year fixed interest gilts; and
- Cash - based on the Bank of England base rate.

	Year Ended 31 December 2007		Year Ended 31 December 2006	
Present value of scheme assets	Long term rate of return expected	Market Value £000	Long term rate of return expected	Market Value £000

Equities	7.1%	13,458	7.1%	12,402
Bonds	4.6%	2,431	4.6%	2,437
Other	5.5%	1,353	5.0%	1,022
		<u>17,242</u>		<u>15,861</u>
Present value of defined obligation: Funded plans		19,707		(20,101)
Total		<u>19,707</u>		<u>(20,101)</u>
Deficit in the scheme		<u>(2,465)</u>		<u>(4,240)</u>
Related deferred tax asset		690		1,272
Net pension liability		<u>(1,775)</u>		<u>(2,968)</u>
Reconciliation of opening and closing balances of the present value of the defined benefit obligation:				
Benefit obligation at beginning of year		20,101		19,479
Service cost		—		—
Interest cost		1,012		922
Actuarial (gains)/losses		(875)		233
Benefits paid		(531)		(552)
Past service costs		—		19
Benefit obligation at end of year		<u>19,707</u>		<u>20,101</u>
Reconciliation of opening and closing balances of the fair value of plan assets:				
Fair value of plan assets at beginning of year		15,861		14,259
Expected return on plan assets		1,046		876
Actuarial gain		266		659
Contributions by employers		600		619
Benefits paid		(531)		(552)
Fair value of plan assets at end of year		<u>17,242</u>		<u>15,861</u>
The amounts recognised in the Income Statement are:				
Interest on obligation		1,012		922
Expected return on plan assets		(1,046)		(876)
Past service cost		—		19
Total (gain)/expense		<u>(34)</u>		<u>65</u>

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

	Group and Company	
	2007	2006
	£000	£000
Cost of sales	<u>—</u>	<u>19</u>
Financial income	<u>(1,046)</u>	<u>(876)</u>

Finance costs	1,012	922
	(34)	65

Actuarial gains shown in SORIE since 1 January 2004:

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

History of scheme assets, obligations and experience adjustments

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

Other pension schemes

On 1 January 2006 a separate stakeholder scheme was set up for those employees who were originally in the closed defined benefit scheme. The contributions paid by the Company in 2007 were £527,000 (2006: £534,000).

In addition to this scheme, Zotefoams plc operates a stakeholder scheme which is open to employees who joined after 1 October 2001. The contributions paid by the Company in 2007 were £27,000 (2006: £20,000).

For US based employees Zotefoams Inc. operates a 401(k) plan. The contributions paid by Zotefoams Inc. in 2007 were \$76,000 (2006: \$86,000).