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Thursday 31 March 2011

ZOTEOFAMS PLC

Acquisition of outstanding 70 per cent. interest in MuCell Extrusion LLC; and Placing of 1,534,219 new Ordinary Shares at 150 pence each

Zotefoams plc (“Zotefoams”, or the “Group” or the “Company”), which manufactures and sells high-performance foams, is pleased to announce the completion of the purchase of the outstanding 70 per cent. interest in MuCell Extrusion LLC (“MuCell”) not already held by the Group (the “Acquisition”) and a placing of 1,534,219 new ordinary shares of 5 pence each (“Ordinary Shares”) at 150 pence per Ordinary Share (the “Placing Price”) to raise gross proceeds of approximately £2.3 million (the “Placing”).

HIGHLIGHTS

- Acquisition of remaining 70 per cent. interest in MuCell for total cash consideration of \$7.5 million;
- Initial cash payment of \$4.0 million and deferred cash payments of \$2.0 million and \$1.5 million payable on or before 20 January 2012 and 30 July 2012, respectively;
- Placing of 1,534,219 new Ordinary Shares at a price of 150 pence per new Ordinary Share;
- Placing Price represents a 4.2 per cent. discount to the closing middle market price of 156.5 pence per Ordinary Share on 30 March 2011;
- Placing Shares will represent approximately 3.85 per cent. of the Company’s enlarged issued share capital immediately following completion of the Placing;
- The net proceeds of the Placing will be used to partially fund the Acquisition and provide additional working capital for the Company;
- The Acquisition is not conditional upon the Placing; and
- Evolution Securities Limited acted as sole bookrunner and broker to the Company.

Commenting on the Acquisition and the Placing, Nigel Howard, Chairman, said:

“I am delighted that the MuCell® extrusion technology, as used in our recently launched microZOTE® roll foams, is now 100 per cent. owned by Zotefoams. The MuCell® foaming method is aligned with global trends of environmentally friendly technology and reduced material content. Zotefoams operates a unique block foam process in the manufacture of our core product lines and understands the benefits of the MuCell technology to licensees in many markets. We anticipate that MuCell will benefit from further investment by Zotefoams as well as from our financial backing and global reach.”

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MuCell

On 8 July 2008, Zotefoams Inc., a wholly-owned subsidiary of the Company, acquired a 30 per cent. interest in MuCell, a newly formed company established by Trexel Inc. ("Trexel"), a US-based company specialising in microcellular foaming of thermoplastic polymers by injection moulding and extrusion, specifically to exploit and further develop the licensing of technology for foaming using extrusion processes.

In addition, Zotefoams Inc. was granted an option (the "Option") by Trexel to purchase the outstanding 70 per cent. interest in MuCell not already held by it. The Option is exercisable between 1 July 2010 and 30 June 2011.

MuCell is involved in the development and licensing of technology for microcellular foam extrusion of sheet and profiles using carbon dioxide and nitrogen. Many MuCell licensees are interested in relatively small reductions in polymer content, creating "foams" with microcellular bubbles reducing weight by the order of 10-30 per cent., simply to reduce costs. Other licensees are interested in creating fully recyclable, light-density foams using environmentally friendly, naturally occurring gases, such as Zotefoams' microZOTE® roll foam product line. Often available as a retrofit to existing process machinery, the Directors consider that MuCell's technology is well aligned to meet the global trends of reducing polymer content in response to increasing commodity prices and environmental responsibility.

The Acquisition

On 30 March 2011, Zotefoams Inc. completed the Acquisition and acquired further patent rights for a total cash consideration of \$7.5 million. The Acquisition will consequently result in the Group holding a 100 per cent. interest in MuCell.

Under the terms of the Acquisition, Zotefoams Inc. paid Trexel an initial cash consideration of \$4.0 million and will make deferred cash consideration payments of \$2.0 million and \$1.5 million, payable on or before 20 January 2012 and 30 July 2012, respectively. The initial payment of \$4.0 million was funded by the Company's existing cash facilities. The exercise of the Option and completion of the Acquisition are not conditional upon the Placing.

As security for the deferred consideration set forth above, Zotefoams Inc. has agreed to procure that MuCell grants Trexel a security interest in all of the intellectual property of MuCell.

Summary financial information in respect of MuCell for the 12 months ended 31 December 2010 is set out below:

	£000's
For the 12 months ended 31 December 2010	
Revenue	1,527
EBITDA	509
Operating Profit	496
Amortisation of intangible assets	(235)
Profit Before Tax	261

As at 31 December 2010

Gross Assets	584
Gross Liabilities	(71)
Net Assets	513

As set out in the Company's preliminary statement for the 12 months ended 31 December 2010 ("2010 Preliminary Statement"), Zotefoams was deemed to have a controlling interest in MuCell from 1 July 2010 thereby requiring MuCell to be consolidated in Zotefoams' consolidated group accounts. As such, MuCell will remain fully consolidated within the Company's accounts going forwards and, in accordance with IAS 27, the acquisition of the remaining 70 per cent. has been treated as an equity transaction.

Accounting Impact of the Acquisition

The Board is pleased that it has been able to agree with Trexel a reduced total cash consideration payable for the remaining 70 per cent. interest in MuCell of \$7.5 million, representing a reduction of \$2.4 million from the original option price offset by an additional \$0.5 million for further patents acquired from Trexel.

This reduction, which has a cash benefit to the Group, has a non-cash impact on the fair value of the goodwill associated with the acquisition of MuCell, the non-controlling interest and the exceptional (non-cash) profit arising from the deemed disposal of the associate interest in MuCell, as reflected in the Company's 2010 Preliminary Statement published on 8 March 2011. The reduction in consideration has led the Board to review the accounting for the acquisition, and in particular whether the hindsight provisions of IFRS 3 apply.

The Board has concluded that the exercise of the option provides new information about the acquisition date fair values that formed part of the original acquisition accounting. Consequently the Board will apply a Hindsight Period Adjustment when preparing the Group's interim accounts for the six months ending 30 June 2011 and the accounts for the year ending 31 December 2011, which will restate the 2010 comparative results to reflect these changes. The impact is anticipated to result in adjustments of the order of a £1.5 million reduction in goodwill from £3.5 million to £2.0 million; a reduction of £1.0 million in the non-controlling interest; and a £0.5 million reduction in the exceptional profit from £1.1 million to £0.6 million.

The Placing

Zotefoams also announces today that it has placed a total of 1,534,219 new Ordinary Shares at a price of 150 pence per share to raise gross proceeds of approximately £2.3 million (net proceeds of approximately £2.2 million).

The net proceeds of the Placing will be used to partially finance the Acquisition, as described above, and to provide additional working capital for the Company.

The Placing Shares represent 4.01 per cent. of Zotefoams' existing issued ordinary share capital and 3.85 per cent. of the issued share capital of the Company, as enlarged by the Placing. The Placing Price represents a discount of 4.2 per cent. to the closing middle market price of an Ordinary Share on 30 March 2011 of 156.5 pence.

The Placing Shares will, when issued, be credited as fully paid and will rank *pari passu* in all respects with the existing Ordinary Shares, including the right to receive the proposed final dividend of 3.15 pence per ordinary share as referred to in the Company's announcement of its preliminary results, dated 8 March 2011, together with all other dividends and other distributions declared, made or paid on or in respect of such shares after the date of issue of the Placing Shares. The Placing is being made on a non-pre-emptive basis.

The Company will apply for the admission of the Placing Shares to listing on the Official List of the Financial Services Authority and to trading on the London Stock Exchange's main market for listed securities ("Admission"). It is expected that Admission will take place and that trading in the Placing Shares will commence on 5 April 2011. It is expected that CREST accounts will be credited on the day of Admission and that share certificates (where applicable) will be dispatched by first class post by or on 19 April 2011.

The Placing is conditional upon, *inter alia*, completion of the Acquisition, Admission becoming effective and the placing agreement between the Company and Evolution not being terminated in accordance with its terms. The Placing has not been underwritten.

Following Admission, the total issued ordinary share capital of the Company will be 39,831,312 Ordinary Shares, all of which have voting rights.

Directors' participation in the Placing

All of the Directors have agreed to subscribe for Placing Shares at the Placing Price. Immediately after Admission, it is expected that the Directors will have the following shareholdings:

Director	No. of Placing Shares subscribed for in the Placing	Total no. of ordinary shares held following the Placing	Percentage of the enlarged issued share capital immediately following Admission
NG Howard	3,000	63,000	0.16
DB Stirling	10,425	218,935	0.55
CG Hurst	8,328	174,904	0.44
RJ Clowes	2,250	47,250	0.12
RH Lawson	250	5,250	0.01

IMPORTANT NOTICE

Evolution Securities Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as sole bookrunner and broker to the Company in connection with the matters described in this announcement. Persons receiving this announcement should note that Evolution Securities Limited will not be responsible to anyone other than the Company for providing the protections afforded to clients of Evolution Securities Limited or for advising any other person on the arrangements described in this announcement. Evolution Securities Limited has not authorised the contents of, or any part of, this announcement and no liability whatsoever is accepted by Evolution Securities Limited for the accuracy of any information or opinions contained in this announcement or for the omission of any information.

The Placing Shares will not be registered under the United States Securities Act of 1933 (as amended) or under the securities laws of any state of the United States or qualify for distribution under any of the relevant securities laws of Canada, Australia or Japan nor has any prospectus in relation to the Placing Shares been lodged with or registered by the Australian Securities and Investments Commission. Accordingly, subject to certain exceptions, the Placing Shares may not be, directly or indirectly, offered, sold, taken up, delivered or transferred in or into or from the United States, Canada, Australia or Japan or any other jurisdiction where to do so would constitute a breach of the relevant securities laws of such jurisdiction. This announcement is directed and issued only to the shareholders of Zotefoams and their representatives and shall not be distributed to or used by any other person. Overseas shareholders and any person (including, without limitation, nominees and trustees) who have a contractual or other legal obligation to forward this announcement to a jurisdiction outside the United Kingdom should seek appropriate advice before taking any action.

This announcement contains (or may contain) certain forward-looking statements with respect to certain of the Company's current expectations and projections about future events. These statements, which sometimes use words such as "anticipate", "believe", "intend", "estimate", "expect" and words of similar meaning, reflect the Directors' beliefs and expectations and involve a number of risks, uncertainties and assumptions that could cause actual results and performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statement. Statements contained in this announcement regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. The information contained in this announcement is subject to change without notice and, except as required by applicable law, the Company does not assume any responsibility or obligation to update publicly or review any of forward-looking statements contained herein. You should not place undue reliance on forward-looking statements, which speak only as of the date of this announcement. No statement in this announcement is or is intended to be a profit forecast or to imply that the earnings of the Company for the current or future financial years will necessarily match or exceed the historical or published earnings of the Company.