



ZOTEFOAMS

14 March 2006

**Zotefoams plc
Preliminary Results for the Year Ended 31 December 2005**

Zotefoams plc, the world's leading manufacturer of cross-linked polyolefin block foam, today announces its preliminary results for the 12 months ended 31 December 2005.

Highlights

- Turnover up 11% at £28.0 million (2004: £25.2 million)
- New product ZOTEK® sales of \$1 million (2004: \$0.006 million)
- Pre-tax profit, pre-exceptional items up 40% to £1.8 million (2004: £1.3 million)
- Pre-tax profit after exceptional items of £3.3 million
- Pension scheme restructuring completed
- Net debt reduced to £1.1 million (2004: £1.7 million)
- Dividend of 3.0p, making a total of 4.5p declared for 2005

Commenting on the results, Bill Fairservice, Chairman, said:

"I am pleased to report that 2005 was another year of solid performance by the Company following a 39% profit increase in 2004. In spite of rising energy and materials costs and an increasingly competitive environment, we succeeded in our objective to grow sales of our polyolefin products in excess of the rate of inflation in Europe and to achieve significant sales growth in North America and Asia. Our new ZOTEK high performance foams have also made good progress, particularly in the demanding aviation sector and we are now looking to build on this early success.

"We continue to generate cash, to return cash to shareholders through dividends and to invest for the future. We believe this is an appropriate balance for Zotefoams at this stage of its development. Going forward, we will continue to maintain a focus on our core polyolefins products while pursuing higher margin opportunities for high performance materials and we look forward to further progress in both divisions in 2006."

Enquiries:

Zotefoams plc

020 8664 1600

David Stirling, Managing Director
Clifford Hurst, Finance Director

Financial Dynamics

020 7831 3113

Deborah Scott / Sarah MacLeod

CHAIRMAN'S STATEMENT

Bill Fairservice

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. We aim to remain at the forefront of foam technology by concentrating our resources in key areas, exploiting our unique capability. We also seek to develop and maintain relationships with others where our combination of expertise and resources will be beneficial.

Our Objectives

We intend to grow sales in our core polyolefin foams business in excess of the rate of inflation in Europe and achieve significant 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 this 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.

Our Board

After 10 years with Zotefoams, John Marley retired from the Board as a non-executive Director in December. On behalf of the Board I would like to thank John for his service and contribution over the years. Effective 1 January 2006 Nigel Howard joined the Board as a non-executive Director and Chairman of the Remuneration Committee. I am delighted to welcome Nigel who is currently a non-executive Director of Alliance One International Inc. based in North Carolina, USA and previously worked for Morgan Crucible in a number of roles including Interim Chief Executive.

Our Achievements

During 2005 we grew sales by 11%. Profit before tax and exceptional items increased by 40% to £1.8 million. Profit before tax including exceptional items was £3.3 million. Sales in Europe grew 7% which was approximately twice the level of inflation, while sales in North America and Asia grew 24% and 46 % respectively. During 2005 we made the first meaningful sales of ZOTEK ® high performance foams and continued to invest for the future with technological development in a number of exciting projects including polyamide (nylon) foams. Our return on capital employed, measured as profit before tax and exceptional items as a percentage of average equity, was 7.4%, up from 5.4% in 2004. We ended the year with a strong balance sheet and, despite the exceptional cash costs relating to pensions restructuring and the bid approach, we reduced net debt (borrowings less cash) to £1.1 million (2004:£1.7 million) at 31 December.

The Directors are recommending a final dividend of 3.0p net per share payable on 26 May 2006 to shareholders on the Company register at the close of business on 28 April 2006. This would bring the total declared dividend to 4.5p for 2005 and is unchanged from the dividend declared for 2004.

W H Fairservice

Chairman

13 March 2006

MANAGING DIRECTOR'S REVIEW

David Stirling

Our Year

I am pleased to report improved results for 2005 as sales increased 11% to £28.0 million and profit before tax excluding exceptional items increased 40% to £1.8 million. Profit before tax including exceptional items was £3.3 million. Importantly, in a year where our raw material and energy prices rose sharply, we were able to recover these increases through price rises and a surcharge linked to polymer prices and therefore gross margins for the year were satisfactory at 22.6% (2004: 22.1%). Overall sales volume increased 3%. Unusually, sales in the second half of the year were stronger than in the first half as volumes rose by 7% and sales value increased by 17%. Sales of our ZOTEK® high performance foams grew to US\$1 million (£555,000) which accounted for 2% of turnover.

Before exceptional items our effective tax rate is 31% (2004: 11%) giving profit for the year of £1.3 million (an increase of 9% over 2004) and earnings per share of 3.5p (2004: 3.2p). After exceptional items profit for the year was £2.4 million with earnings per share of 6.7p.

On 14 January 2005 Zotefoams received a preliminary approach from a third party looking to buy the company. Discussions continued with a number of parties through most of 2005, absorbing a significant amount of management time and resource, until 2 November 2005 when the Zotefoams' Board terminated discussions. The costs of this unsolicited approach were £413,000 and these are classified as an exceptional item.

Effective 31 December 2005 Zotefoams closed its UK defined benefit scheme to future service accrual for existing members. The defined benefit scheme had been closed to new entrants from October 2001. All employees who were active members of the defined benefit scheme as at 31 December 2005 were offered membership of an alternative defined contribution scheme. This restructuring resulted in an exceptional profit of £2.0 million due to the actuarial impact of the reduction in future obligations on the defined benefit scheme. Net of associated costs, including explanatory presentations to employees, an exceptional gain of £1.9 million is shown in the accounts for the period. Further detail is given in the Finance Director's review.

Our Business

Foams produced and sold by Zotefoams fall into two main business segments which are best characterised by their constituent raw materials: polyolefins and high performance polymers. Development of materials for sale in the high performance polymer foams market is a key element in our business strategy. Zotefoams' proprietary technology allows the foaming of materials which we believe cannot currently be achieved by other means or, alternatively, our process gives either an economic or material performance advantage. We are seeking to exploit this technical advantage by foaming materials other than polyolefin to meet the needs of markets outside traditional polyolefin foams. However, we believe polyolefin foam will continue to be our largest product group for the foreseeable future and the combination of growth in this product and the development of new materials will make a real and sustainable positive difference to our business.

Polyolefin foams

Overall volumes in polyolefin foams grew 3% compared to 2004. Increased selling prices, product mix and a temporary surcharge to customers in relation to raw materials costs combined with the volume increase to give an overall increase in sales of polyolefin foams of 9% compared to 2004.

In a climate of increasing material costs 2005 was always likely to be a year of subdued volume growth. Germany, which grew 9% in volumes, was the only major market where sales volumes increased significantly. In other areas we saw a mixed picture with quite dramatic swings in timing of sales and product mix over the business as a whole and in

France and North America in particular. The second six months saw a more encouraging picture with volumes up 7% and sales value, including the impact of raw material surcharges, up 14% on the previous year.

Sales in the UK and Eire grew 5% as Zotefoams continues to work on end-user market development and support of customers in specific market segments. UK manufacturing overall continues to be a difficult market but new applications in construction together with some recovery in the marine segment, offset a slower than expected year in specialist packaging.

In Germany sales grew by 15% as a result of strong performances in the packaging and transport segments both through our main distributor and through direct accounts. In France, as our prices increased, some business was lost in the industrial and construction segments although this was partly compensated for by growth in marine applications. Italy and Spain remain difficult markets for Zotefoams with sales performing below our expectations for the second successive year and our approach in both countries is currently under review. Our performance in Scandinavia, with a volume increase of 7%, was particularly pleasing with strong contributions from the industrial segment and growth of newly developed accounts in packaging.

In North America sales to the automotive and general construction segment were at similar levels to 2004. Growth in this region came predominantly from the military, specialty construction and health and beauty segments. Although overall volumes increased by only 3% in North America the more favourable product mix led to an overall increase in revenues from polyolefin foam of 15%.

The Rest of the World sales volume grew by 21% during the year with strong contributions in specific regions from the construction, sports and leisure and packaging segments.

During 2000 and 2001 Zotefoams entered into a worldwide sales and marketing alliance for polyolefin foams with the Sekisui Chemical Company Ltd ('Sekisui'), who act as exclusive agent and distributor for Zotefoams in Continental Europe and Asia respectively. Sekisui also act as agent for certain customers in North America.

As announced in December the Board has, for some time, been in discussions with Sekisui in relation to certain of their obligations under two of these contracts. While still open to the prospect of resolution through other means, the Board has decided to pursue its rights through the prescribed dispute resolution processes and Zotefoams has therefore instigated arbitration proceedings which are scheduled to be heard at the end of March 2006 and in June 2006. Commercial arrangements with Sekisui continue as normal.

Our major raw materials are commodity polymers and therefore are subject to rapid and sometimes large price movements. Low density polyethylene, by far our largest raw material cost, averaged 1056 euros per tonne in 2005, up 24% on 2004. In 2005 significant price increases were experienced in both gas and electricity and Group energy costs were 5.8% of sales. While efforts are underway to minimise the impact of energy price rises in our business we anticipate further increases in our energy costs in 2006.

High Performance Foams

Our high performance foams are marketed under the ZOTEK® brand. The first ZOTEK product, a fluoropolymer foam known as ZOTEK F30, was launched in January 2004 with the key attributes of excellent fire, chemical and UV-light resistance. This is a radical departure from existing materials both for Zotefoams and for our customers and therefore requires a significant market development effort. However, ZOTEK F30 has now gained acceptance in demanding aviation applications and the majority of the US\$1 million of sales during 2005 were in aviation in North America.

Our materials partner, Arkema Inc., offers a wide range of fluoropolymers under the Kynar® trademark and we anticipate developing a range of the ZOTEK F foams exploiting the various properties of these polymers. We have already secured initial orders for our second major product, ZOTEK F HT, offering higher temperature and improved chemical resistance, which was launched in January 2006.

Zotefoams are currently working on additional exciting projects in aviation, military and in the chemical industry with ZOTEK grades. These projects are often for much larger values than offered by 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 in their development.

Operational Capability

Zotefoams operates a unique and proprietary manufacturing process which has been used for production of polyolefin foams for many years. Our strategy is to apply this process to higher value polymers which cannot be foamed by conventional means or where our process would give significant advantages. Therefore all products we make share significant common elements of equipment and processes.

In April 2005 we commissioned a new high pressure autoclave to increase our production capacity and flexibility. This capacity addition was required to allow older machinery to be removed from production as part of a rolling refurbishment and upgrade programme planned to continue into 2015. In August one of our older high pressure vessels was removed from service as part of this process. As this work progressed it became apparent there was some unanticipated corrosion being caused by the water-cooling mechanism which Zotefoams have used on this site since the 1940s. Further investigations uncovered the same issue, to varying degrees, on all high pressure vessels operating using water cooling. To minimise the extent of this corrosion (which ultimately would impair both the useful life and operating pressure of these vessels as well as increase the risk of a health and safety incident) the Board has decided to accelerate the refurbishment and upgrade programme.

Our target, which is based on the most prudent course from a safety perspective while continuing to operate, is for a serial refurbishment of all water-cooled vessels on the shortest practical timescale. Approximately 60% of our HP capacity remains to be refurbished on an accelerated timescale which will result in capital expenditure of approximately £9 million being phased over 6 years rather than 10 years as originally planned.

Expenditure on research and development, all of which has been charged to profits in the year of expenditure, increased by 6% to £0.8 million in 2005. The majority of this was spent on fluoropolymer, polyamide and silicone foams, although there are other projects being evaluated. Developments with fluoropolymer are aimed at extending the grade range and are strongly influenced by feedback from market evaluations of the ZOTEK F30 foams which were sold during the year. Our polyamide foam development is at an advanced stage and market launch is expected around mid-2006. The technical development of low-density silicone foam is well advanced and we are at the stage of addressing specific engineering and handling aspects of this material. The production and certain uses of PVDF, polyamide and silicone foams are covered by patents.

Employees

Customers, employees and technology define our business. 2005 brought significant challenges of rising input costs against a backdrop of uncertainty caused by the bid approach. In these challenging circumstances I am delighted at the response from Zotefoams' employees and I would like to express my thanks to each and every one for their effort during the year.

The Future

The key challenges for Zotefoams in the coming year are to manage the impact of changes in commodity prices (primarily energy and materials costs) and competitive environment while pursuing our stated objectives to:

1. grow sales in our polyolefin business in excess of the rate of inflation in Europe and achieve significant growth in North America and Asia;
2. develop a high performance foams portfolio to deliver enhanced margins;
3. improve our return on capital employed.

During 2004 and 2005 we met all these objectives and they continue to offer a valid benchmark of our performance into 2006. We continue to generate cash, to return cash to shareholders through dividends and to invest for the future. I firmly believe the balance is appropriate for Zotefoams at this stage in our development and that our business will evolve and prosper while managing the risks outlined above. The combination of a solid foundation in polyolefin foams and opportunities in development of high performance materials offers exciting prospects for the future.

David Stirling

Managing Director

13 March 2006

FINANCE DIRECTOR'S REVIEW

Clifford Hurst

Finance Director's review

Group turnover was £28.0 million, 11% higher than 2004. Roughly half of this increase was due to price rises and a material surcharge as high input prices on polymer and energy were passed on. The average price of low density polyethylene, our major raw material, rose 24% while our energy prices increased by £0.3 million. It is therefore pleasing that through a combination of price increases and efficiency improvements we were able to maintain gross margins at around 22%.

Underlying distribution and administrative expenses, pre-exceptional items, increased by £0.3 million with an additional investment of £0.1 million in technical support. Sales of our new materials in the year exceeded £0.5 million compared to practically nil in 2004 and we have an exciting pipeline of new products.

Profit before tax and exceptional items was £1.8million, a 40% increase compared to 2004. Profit before tax after exceptional items was £3.3 million.

There are two exceptional items shown within administrative expenses. In January 2005 the Board announced that it had received a preliminary approach that might lead to an offer for the share capital of the Company. Discussions continued with a number of parties until the Board announced in November 2005 that these talks were terminated. The advisory and other costs associated with this approach were £0.4 million.

In December 2005 the Company closed its defined benefit pension scheme to future accrual of benefit. The actuarial gain from this curtailment, less associated costs, was £1.9 million.

The tax charge for the year was £0.9 million, an effective tax charge of 26%. This is after an exceptional £0.3 million release of a deferred tax provision. The provision related to insurance proceeds received after a fire in 2000 which were recorded as an exceptional profit and now that the tax computations have been agreed with Her Majesty's Revenue and Customs the surplus provision has been released as an exceptional item.

Profit after tax was therefore £2.4 million with earnings per share of 6.7 pence. Excluding exceptional items earnings per share are 3.5p compared to 3.2p in 2004.

Cash flow and funding

EBITDA excluding exceptional items was £5.3 million (2004: £5.0 million). Working capital increased by £0.7 million due to higher sales in the second half of the year. Depreciation was £3.3 million, significantly above capital expenditure of £1.1 million. After a period of major capital expenditure in 2000 to 2002 (£8 million was spent on opening a North American manufacturing facility and £6 million on rebuilding the Croydon site following a fire) depreciation has been substantially above capital expenditure. Nevertheless, the capital expenditure in 2005 was abnormally low due to phasing of projects and we expect capital expenditure to rise in 2006.

With cash generated from operating activities of £3.2 million the Group produced strong cash flow, reducing net debt (borrowings less cash) in the year from £1.7 million to £1.1 million. Gearing (measured as net debt divided by shareholder's equity) has fallen to 4% from 7% in 2004.

A final dividend of 3.0p net per share is proposed which brings the total declared for the year to 4.5p, the same level as 2004.

Pensions

The Company operates a defined benefit pension scheme in the UK which has been closed to new entrants since October 2001. Following the tri-annual actuarial valuation in April 2005 the deficit on an ongoing valuation basis increased from £0.6 million to £3.8 million. In view of the risks involved in running defined benefit pension schemes, the Board, after a period of consultation, closed the scheme to future accrual of benefit on 31 December 2005.

Employees who were members of the scheme have been offered membership of an alternative defined contribution scheme. The contribution level to this scheme has been set by an actuary to provide a similar level of benefit to that which the member could have expected, as at 31 December 2005, when they retired from the defined benefit scheme. The cash cost of doing this for the Company is similar to that which it contributed to the defined benefit scheme for ongoing benefits. However, by fixing the contribution level at 31 December 2005 the Company now has a predictable cost for future service without bearing investment or mortality risk.

The Company retains the risk on employee service in the defined benefit scheme prior to 31 December 2005. By closing the scheme to future accrual the deficit on an ongoing valuation basis was reduced to a net present value of £2.5 million as at 5 April 2005. The Company has agreed with the trustees to pay off this deficit in equal monthly instalments of £50,000 over the next five years. However, in the future there is a risk that investment performance and mortality may differ, either favourably or unfavourably, from current assumptions. The Company has therefore not eliminated all the risks associated with the scheme, but it has reduced them compared to leaving the scheme open to future benefit accrual.

Treasury

In 2005 average exchange rates did not change significantly compared to 2004. However, with most of the costs of the business being in sterling and the majority of sales being in euros and US dollars the Group has a significant foreign exchange exposure. The Board therefore has defined policies and procedures relating to treasury management. 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 based on a proportion of the next six month's anticipated sales. Translation exposure is not hedged. Interest rates on borrowings are all based on variable rates plus a bank margin and are unhedged as the interest rate risk is not, at present, considered material.

Accounting policies

During the year the Group adopted International Financial Reporting Standards for the first time. Details of the adjustments on transition and of the principal differences were shown in the Interim Report issued to shareholders, a copy of which can be accessed on the Zotefoams website www.zotefoams.com.

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
13 March 2006

**Consolidated income statement
for the year ended 31 December 2005**

	Note	2005			2004
		Pre- exceptional items £000	Exceptional Items (see note 3) £000	Post- exceptional items £000	£000
<i>Revenue</i>	2	27,975	—	27,975	25,176
Cost of sales		(21,640)	—	(21,640)	(19,607)
<i>Gross profit</i>		6,335	—	6,335	5,569
Distribution costs		(1,905)	—	(1,905)	(1,863)
Administrative expenses		(2,407)	1,449	(958)	(2,104)
<i>Operating profit</i>		2,023	1,449	3,472	1,602
Financial income	4	813	—	813	750
Finance costs	4	(997)	—	(997)	(1,043)
<i>Profit before tax</i>		1,839	1,449	3,288	1,309
Taxation	5	(569)	(292)	(861)	(139)
<i>Profit for the year</i>		1,270	1,157	2,427	1,170
Attributable to: Equity holders of the parent		1,270	1,157	2,427	1,170
<i>Earnings per share</i>					
Basic (p)	6			6.7	3.2
Diluted (p)	6			6.7	3.2

**Consolidated statement of recognised income and expense
for the year ended 31 December 2005**

	2005	2004
	£000	£000
Foreign exchange translation differences on investment in foreign subsidiary	846	(576)
Effective portion of changes in fair value of cash flow hedges net of recycling	(79)	–
Actuarial (losses)/gains on defined benefit schemes	(42)	264
Tax on items taken directly to equity	13	(79)
<i>Net income/(expense) recognised directly in equity</i>	738	(391)
Profit for the year	2,427	1,170
<i>Total recognised income and expense for the year</i>	3,165	779
Attributable to equity holders of the parent	3,165	779

**Consolidated balance sheet
as at 31 December 2005**

	2005 £000	2004 £000
<i>Non-current assets</i>		
Property, plant and equipment	28,364	29,795
Deferred tax assets	132	—
Total non-current assets	28,496	29,795
<i>Current assets</i>		
Inventories	3,933	3,126
Trade and other receivables	6,182	5,675
Cash and cash equivalents	432	298
<i>Total current assets</i>	10,547	9,099
Total assets	39,043	38,894
Equity		
Issued share capital	(1,816)	(1,813)
Share premium	(13,753)	(13,707)
Capital redemption reserve	(5)	(5)
Translation reserve	(270)	576
Hedging reserve	79	—
Retained earnings	(9,857)	(9,104)
<i>Total equity</i>	(25,622)	(24,053)
Liabilities		
Interest-bearing loans and borrowings	(1,100)	(1,500)
Employee benefits	(5,220)	(7,192)
Deferred tax liabilities	(2,730)	(2,585)
<i>Total non-current liabilities</i>	(9,050)	(11,277)
Interest-bearing loans and borrowings	(400)	(457)
Tax payable	(698)	(577)
Trade and other payables	(3,273)	(2,530)
<i>Total current liabilities</i>	(4,371)	(3,564)
Total liabilities	(13,421)	(14,841)
Total equity and liabilities	(39,043)	(38,894)

**Consolidated cash flow statement
for the year ended 31 December 2005**

	2005	2004
	£000	£000
<i>Cash flows from operating activities</i>		
Profit for the year	2,427	1,170
Adjustments for:		
Depreciation, amortisation and impairment	3,322	3,371
Loss on sale of property, plant and equipment	—	23
Financial income	(813)	(750)
Financial expense	997	1,043
Equity-settled share-based payments	(14)	46
Taxation	861	139
<i>Operating profit before changes in working capital and provisions</i>	6,780	5,042
(Increase)/decrease in trade and other receivables	(346)	136
Increase in stock	(704)	(13)
Increase in trade and other payables	334	188
Decrease in provisions and employee benefits	(2,003)	(92)
<i>Cash generated from the operations</i>	4,061	5,261
Interest paid	(151)	(254)
Tax paid	(713)	(520)
Net cash from operating activities	3,197	4,487
Proceeds on disposal of property, plant and equipment	—	1
Interest received	26	—
Acquisition of property, plant and equipment	(1,070)	(1,331)
<i>Net cash used in investing activities</i>	(1,044)	(1,330)
Proceeds from the issue of share capital	49	—
Repayment of borrowings	(400)	(851)
Proceeds from new loan	—	2,000
Payment of finance lease liabilities	(57)	(119)
Dividends paid	(1,631)	(1,269)
<i>Net cash used in financing activities</i>	(2,039)	(239)
Net increase in cash and cash equivalents	114	2,918
<i>Cash and cash equivalents at 1 January</i>	298	(2,616)
Effect of exchange rate fluctuations on cash held	20	(4)
<i>Cash and cash equivalents at 31 December</i>	432	298

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

Notes to the financial statements

1. Accounting policies

Zotefoams plc (the 'Company') is a company incorporated in the UK.

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 IFRSs').

The accounting policies have, unless otherwise stated, been applied consistently for the Group to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to Adopted IFRSs. The principal exception is that, as more fully explained below, financial instruments accounting is determined on different bases in current year and comparative year due to transitional provisions of IAS 32 and IAS 39.

Transition to Adopted IFRS

The Group's financial statements are presented in accordance with Adopted IFRS for the first time and consequently the Group has applied IFRS 1. An explanation of how the transition to Adopted IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in the Interim Report of the Company to shareholders.

In addition to exempting companies from the requirement to restate comparatives for IAS 32 and IAS 39, IFRS 1 grants certain exemptions from the full requirements of IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- Employee benefits – all cumulative actuarial gains and losses on defined benefit plans have been recognised in equity on 1 January 2004;
- Cumulative translation differences – cumulative translation differences for all foreign operations have been set to zero at 1 January 2004; and
- Share-based payments – the recognition and measurement requirements of IFRS 2 were not applied to share options awarded before 7 November 2002.

The financial information does not constitute the Company's statutory accounts for the year ended 31 December 2005 or 2004 but is derived from those accounts. Statutory accounts for 2004 have been delivered to the Register of Companies, and those for 2005 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) or (3) of the Companies Act.

2. Business segments

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 derived from our ZOTEK® F foams made from PVDF fluoropolymer. Other polymers being assessed in development include polyamide (nylon) and silicone.

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

	Note	Polyolefins		HPP		Consolidated	
		2005 £000	2004 £000	2005 £000	2004 £000	2005 £000	2004 £000
Revenue		27,420	25,173	555	3	27,975	25,176
Segment result		2,219	1,997	(196)	(395)	2,023	1,602
Exceptional items	3	—	—	—	—	1,449	—
Net financing costs		—	—	—	—	(184)	(293)
Taxation		—	—	—	—	(861)	(139)
Profit for the period		—	—	—	—	2,427	1,170
Segment assets		38,026	38,203	885	691	38,911	38,894
Unallocated assets		—	—	—	—	132	—
Total assets						39,043	38,894
Segment liabilities		(9,752)	(11,677)	(241)	(2)	(9,993)	(11,679)
Unallocated liabilities		—	—	—	—	(3,428)	(3,162)
Total liabilities						(13,421)	(14,841)
Depreciation		3,272	3,314	50	57	3,322	3,371
Capital expenditure		1,053	1,297	17	34	1,070	1,331

Geographical segments

	UK and Eire £000	Europe £000	North America £000	Rest of the World £000	Total
For the year ending 31 December 2005					
Revenue from external customers	7,332	12,604	7,336	703	27,975
Segment assets	29,744	—	9,167	—	38,911
Capital expenditure	1,046	—	24	—	1,070
For the year ending 31 December 2004					
Revenue from external customers	6,985	11,764	5,909	518	25,176
Segment assets	30,841	—	8,053	—	38,894
Capital expenditure	1,040	—	291	—	1,331

3. Exceptional items

The Company has 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.

Pension curtailment costs

On 31 December 2005 the Zotefoams Defined Benefit Pension Scheme for UK employees was closed to future accrual of benefits. The actuarial gain on closing the scheme to future accrual of benefits and the associated costs have been classified as an exceptional item.

Tax adjustment to exceptional items in prior year

In 2001 and 2002 the Group recorded an exceptional profit on insurance proceeds following a fire in 2000 at the Group's Croydon site. The tax computations relating to 2001 and 2002 have now been agreed with the Revenue resulting in a £267,000 release on the deferred tax provided in relation to these proceeds. This is released as an exceptional item because it relates to a previous exceptional item.

	2005 £000	2004 £000
Bid costs	(413)	—
Pension curtailment:		
Actuarial gain	1,972	—
Associated costs borne by the Company	(110)	—
Net curtailment gain	1,862	—
Exceptional items before taxation	1,449	—
Tax on above	(559)	—
Adjustment to tax on prior year exceptional item	267	—
Exceptional items after taxation	1,157	—

4. Finance income and costs

Financial income

	2005 £000	2004 £000
Interest on bank deposits	26	—
Expected return on assets of defined benefit pension fund	787	750
	813	750

Finance costs

	2005 £000	2004 £000
On bank loans and overdrafts	120	201
On finance leases	16	24
Interest on defined benefit pension obligation	861	818
	997	1,043

5. Taxation

	2005 £000	2004 £000
UK corporation tax at 30% (2004: 30%)	917	871
Overseas taxation	2	24
Adjustment to prior year UK tax charge	(84)	(176)
Current taxation	835	719
Deferred taxation	26	(580)
Total tax charge	861	139

Factors affecting the tax charge

The tax charge for the period is lower (2004: lower) than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained below.

	2005 £000	2004 £000
Tax reconciliation		
Profit on ordinary activities before tax	3,288	1,309
Tax at 30% (2004: 30%)	986	393
Effects of:		
Research and development tax credits less expenses not deductible for tax purposes	115	(8)
Partial recognition of US tax losses	(54)	—
Higher/(lower) tax rates on overseas earnings	15	(17)
Intra-group stock movements	—	35
Adjustments to tax charge in respect of previous periods	66	(264)
Adjustment to tax charge on prior year exceptional items	(267)	—
Total tax charge	861	139

6. Dividends and earnings per share

	2005 £000	2004 £000
Final dividend prior year of 3.0p (2004: 2.0p) net per 5p ordinary share	1,087	725
Interim dividend of 1.5p (2004: 1.5p) net per 5p ordinary share	544	544
Dividends paid during the year	1,631	1,269

The proposed final dividend for the year ended 31 December 2005 of 3.0p per share (2004: 3.0p) is subject to approval by shareholders at the Annual General Meeting 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 £2,427,000 (2004: £1,170,000) 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.

	2005	2004
Average number of ordinary shares issued	36,276,976	36,255,772
Deemed issued for no consideration	—	30,973
Diluted	36,276,976	36,286,745

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

Date from which exercisable	Exercise price	Number of shares under option	
		2005	2004
1 June 2005	77.0p	—	177,475
20 August 2005	80.5p	—	654,494
18 March 2006	80.0p	872,865	872,865
7 April 2007	72.5p	1,130,034	1,130,034
22 December 2008	77.0p	1,026,320	—
		3,029,219	2,834,868

The average fair value of one ordinary share during the year was considered to be 72.0p (2004: 75.3p).