



Report and Financial Statements

30 September 2003

# Contents

Business Description and Financial Highlights	1
Chairman's Statement	2
Current Directors	3
Directors' Report	4
Corporate Governance	6
Remuneration Report	8
Independent Auditors' Report	11
Group Profit and Loss Account	12
Balance Sheets	13
Group Statement of Cashflows	14
Notes to the Financial Statements	15
Current Directors and Advisors	28
Notice of Annual General Meeting	29
Form of Proxy	31

# Business Description and Financial Highlights

## Business Description

Zytronic is an **industry leader** in the development and manufacture of customised optical filters to enhance electronic display performance. It is also an innovator in the production of specialised and transparent laminates for niche markets.

Based on this lamination expertise, Zytronic has developed a unique range of touchscreen products employing projected capacitive technology which enables the pointing device to sense through an anti-vandal screen in front of the display. This system offers significant benefits to electronic display manufacturers.

Operating from a modern factory near Newcastle upon Tyne in England, Zytronic assembles touchscreens and filters, utilising special glass and plastic materials, in environmentally controlled clean rooms.

## Financial Highlights

Orders recovered strongly towards the end of the first half of the year and the improvement was maintained during the second half. At the end of the financial year, our closing order book was double that at the previous year end.

Further specification approvals for ZYTOUCH® during the year have substantially expanded the number of customers the Group now serves. This should impact in 2004 not only in assisting the growth of the business but also by adding a degree of stability to the increased trading levels.

- Group turnover of £5.7m showed growth of 12.3% (2002 - £5.1m).
- Operating loss, before exceptional items, showed a significant reduction to £266,000 (2002 - loss £394,000).
- Cash £1.0m; net cash £0.5m (2002 - £1.2m and £0.6m).
- Operating activities continued to generate positive cashflows of £0.4m (2002 - £0.6m).

# Chairman's Statement

(incorporating Financial and Operating Review)

“ The improvement in orders and sales which we saw in the second half of the year and the continued acceptance of Zytronic in the market place provides a sound base for profitable growth in the future. ”

There has been further progress in the development of Zytronic during the year ended 30 September 2003. In particular, ZYTOUCH®, the Group's unique touchscreen product, has gained growing acceptance with a range of original equipment manufacturers serving markets from banking through telecommunications to the entertainment industry. In optical filters, we have been specified, after three years of development, for the supply of specialised filters for in-car navigation systems.

In line with my statements to shareholders last year and at the interim stage this year, we saw a recovery in trading during the second half of the year.

## Results

Turnover for the year under review increased 12% to £5.7m (2002 – £5.1m). After exceptional reorganisation costs, mainly in the first half, of £87,000 (2002 – £Nil) arising from actions taken to reduce the Group's cost base, the loss before tax was reduced to £366,000 (2002 – £406,000). This was made up of a loss of £451,000 in the first half and a profit before tax of £85,000 in the second half.

The Group's cash position remains strong with cash balances of £954,000 at the year-end.

The Group continued to generate net cash inflows from operating activities.

## Trading

Orders recovered strongly towards the end of the first half of the year and the improvement was maintained during the second half. At the end of the financial year, our closing order book was double that at the previous year end.

Further specification approvals for ZYTOUCH® during the year have substantially expanded the number of customers the Group now serves. This should impact in 2004 not only in assisting the growth of the business but also by adding a degree of stability to the increased trading levels. Trials of ZYTOUCH® for petrol pump applications

are also making good progress and prototypes are now being tested 'in the field'.

As I mentioned in my interim statement in May, we have recently entered into an agreement with Elo TouchSystems Inc, a global leader in touch technology. The ZYTOUCH® product has now successfully completed Elo's qualification programme and was launched as an Elo branded product in October. It is anticipated that sales under this agreement will impact on the Profit and Loss Account in the latter part of 2004.

I am delighted to report that we won the Kiosk Magazine "Input Design Excellence" Award in August. Kiosk Magazine is the leading magazine for the kiosk industry, which is an important user of touchscreen technology.

## Personnel

I am pleased to report the appointment of Denis Mullan as Finance Director towards the end of the financial year. Denis brings a wealth of professional experience and already knows Zytronic, having been involved in the AIM flotation process three years ago when he was a partner in Ernst & Young LLP. He replaces David Banks, who has been part-time Finance Director since flotation. I am pleased that we shall be able to retain David's knowledge and experience of Zytronic as he has agreed to remain on the Board as a Non-Executive Director.

My thanks go to all of our personnel, who have worked hard to achieve the turnaround in fortunes we have seen over the course of 2003.

## Outlook

The improvement in orders and sales which we saw in the second half of the year and the continued acceptance of ZYTOUCH® in the market place provides a sound base for profitable growth in the future.

J M Kennair MBE  
Chairman

6 February 2004

## Current Directors

**John Martin Kennair MBE** (dob 11/03/44).

**Chairman.**

John Kennair joined the Romag Group in 1971 and was appointed Group Chief Executive in 1975. In 1990 he was awarded the MBE for services to the specialised glass industry. He was responsible for the development of the glass business of the Romag Group, of which he is chairman, from sales of approximately £80,000 per annum to £16 million in the financial year to September 1999. He led the demerger of Zytronic Displays Limited from the Romag Group and the flotation of its parent company, Zytronic plc, in July 2000 and the subsequent flotation of Romag Holdings plc in November 2003.

**Ian Bruce Lawson** (dob 15/01/47).

**Chief Executive.**

Ian Lawson has broad experience across a range of manufacturing and technology companies. He was, until June 2001, employed by Gartland Whalley and Barker plc, during which time he was Chief Executive of Cirqual plc – a listed company; non-executive director of Aquarius Group plc – a listed company; and a non-executive director of various unlisted manufacturing and distribution groups. Prior to this he was Chief Executive of the Closure group of companies, part of Wassall plc, which included responsibility for its subsidiaries in the UK, Holland, Italy, South Africa and other countries. His initial career from 1970 to 1980 was as a management consultant, before becoming Managing Director of a family owned business, after which he worked for the major industrial conglomerates Murray & Roberts and Barlow Rand as Managing Director of various subsidiaries.

**Denis Gerald Wilson Mullan B.Sc, FCA** (dob 08/02/54).

**Finance Director.**

Denis was formerly a partner in Ernst & Young LLP, specialising in corporate finance. He was based successively in its offices in London, Newcastle upon Tyne and finally Bristol. While based in Ernst & Young's Newcastle upon Tyne office, he advised the Romag Group for about ten years. He led its work on the demerger of Zytronic Displays Limited in June 2000 and the subsequent admission to AIM of Zytronic plc in July 2000. Shortly thereafter he transferred to Ernst & Young's Bristol office at which time his formal advisory role to the company ceased.

**David Eric Banks MA, FCA** (dob 13/08/53).

**Non-Executive Director.**

David Banks qualified as a Chartered Accountant in 1977 with Coopers & Lybrand. He held a variety of positions in industry at director level before forming David Banks Associates which provides temporary and part time assistance in financial supervision and management. He is also a director of Romag Holdings plc and of ProTurn Limited. He was appointed Finance Director of Zytronic plc in June 2000, prior to its flotation, and became a non-executive director with effect from 1 September 2003 following the appointment of Denis Mullan to that role.

**Sir David Robert Macgowan Chapman Bt., DL, B Comm.** (dob 16/12/41).

**Independent Non-Executive Director.**

A former member of the London Stock Exchange and a member of the Greenbury Committee on Corporate Governance, Sir David is a director of Northern Rock Plc, High Gosforth Park Limited and a number of regional venture capital funds, including Capital North East. He is also a member of the National Council of the CBI and North East Regional Chairman. In 2002, he joined Laing & Cruickshank Investment Management Limited as a consultant from Merrill Lynch International Bank, where he was a First Vice President.

**Tudor Griffith Davies B.Sc** (dob 02/12/51).

**Independent Non-Executive Director.**

Tudor was formerly a partner in Arthur Young (now part of Ernst & Young LLP) specialising in corporate finance and recovery. He has wide industry experience at boardroom level, as Chairman, Chief Executive and an executive and non-executive director of several public and private companies.

Denis Mullan was appointed a director on 29 August 2003. The other directors served throughout the financial year.

# Directors' Report

The directors present their report and financial statements for the year ended 30 September 2003.

## Principal activities

Zytronic is an industry leader in the development and manufacture of customised optical filters to enhance electronic display performance. It is also an innovator in the production of specialised and transparent laminates for niche markets. Based on this lamination expertise, Zytronic has developed a unique range of touchscreen products employing projected capacitive technology which enables the pointing device to sense through an anti-vandal screen in front of the display. This system offers significant benefits to electronic display manufacturers. Details of developments and the progress of the group are contained in the Chairman's Statement.

## Results and dividends

The group profit and loss account is set out on page 12. The group loss after taxation amounted to £307,000 (2002 – £321,000 loss). The directors do not recommend a dividend (2002 – an interim dividend of 0.50p per share amounting to £71,000).

## Directors

The directors of the company are listed on page 3.

Denis Mullan was appointed as a director on 29 August 2003. All the other directors listed were directors for the whole of the year. David Banks switched to being a non-executive director on 1 September 2003.

The emoluments and interests of the directors in the shares of the company are set out in the Remuneration Report.

## Statement of Directors' Responsibilities for the Financial Statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that the financial statements comply with the above requirements.

## Significant interests in shares

On 6 January 2004, the following had notified an interest in the ordinary shares of the company required to be disclosed to the company in accordance with sections 198 to 208 of the Companies Act 1985.

HSBC Global Custody Nominee (UK) Limited	– 3,288,722 shares	(23.01%)
John Kennair MBE	– 2,267,519 shares	(15.87%)
Singer & Friedlander Investment Management Limited	– 1,438,922 shares	(10.07%)
BNY (OCS) Nominees Limited	– 580,000 shares	(4.06%)
BNY GIL Client Account (Nominees) Limited	– 537,592 shares	(3.76%)
Vidacos Nominees Limited	– 505,000 shares	(3.53%)
Clydesdale Bank (Head Office) Nominees Limited	– 463,500 shares	(3.24%)

## Foreign exchange

The company has done most of its buying and selling in sterling but with some exposure to the US dollar and the euro (see note 19). In the year ended 30 September 2003 all such US \$ and euro payments and receipts have been made through the company's sterling bank accounts at the prevailing rates. Full details of the financial instruments and currency profile are shown in note 19.

As the proportion of turnover increases from the USA and Europe, so the company will become more exposed to the risks associated with the movement in those currencies. It is the group's intention to manage those risks during the year ending 30 September 2004 by some use of forward exchange contracts. The group will continue with its policy of not holding speculative positions against movements in currencies or interest rates.

### **Creditor payment policy and practice**

It is the group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the group and its suppliers, provided that all trading terms and conditions have been complied with.

At 30 September 2003, the group had an average of 45 days (2002 – 56 days) purchases outstanding in trade creditors.

### **Disabled employees**

The group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

### **Political and charitable contributions**

The group made no political or charitable contributions during the year (2002 – £Nil).

### **Special business**

A resolution will be proposed at the Annual General Meeting to renew the existing authority of the directors, last conferred by a resolution passed at the Annual General Meeting held in 2003 to allot unissued ordinary shares of the company. The authority (special resolution 1.1. in the Notice of the Meeting) will extend until the Annual General Meeting held in 2005 and is in respect of one third of the company's issued share capital.

The directors consider it advisable that they continue to have power to make allotments of ordinary shares of the company for cash without reference to statutory pre-emption rights, up to a maximum of 714,577 ordinary shares, being 5% of the issued ordinary share capital of the company at 30 September 2003. The authority (special resolution 1.2 in the Notice of the Meeting) will extend until the Annual General Meeting held in 2005 and also would enable the directors to implement a rights issue.

In addition, the directors consider it advisable that the company has the authority to make market purchases of its own shares up to a maximum of 1,429,153 ordinary shares of the company, being 10% of the issued ordinary share capital. The authority (special resolution 2 in the Notice of the Meeting) will extend until the Annual General Meeting for 2005. The power conferred by this authority would only be used after careful consideration by the directors, having taken into account market conditions prevailing at the time, the investment needs of the company, its opportunities for expansion and its overall financial position. The authority would only be exercised by the directors if they considered it to be in the best interests of shareholders generally and if the purchase(s) could be expected to result in an increase in earnings per share.

Following the introduction of The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003, the company does not have to cancel any such shares acquired by market purchase, but can hold them for resale for cash, for transfer for the purposes of an employees' share scheme or for cancellation. The company has amended the wording of last year's resolution to recognise this change, which is administratively more convenient and gives added flexibility to the company.

### **Auditors**

A resolution to re-appoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting.

By order of the board

**D G W Mullan**  
*Secretary*

6 February 2004

# Corporate Governance

As an AIM listed company, Zytronic is not obliged to comply with the Combined Code, but instead uses its provisions as a guide, but only as appropriate to the circumstances of the company.

The company is committed to high standards of corporate governance. The directors consider that, except for the matters noted below, the company has, throughout the year, been in full compliance with the provisions set out in Section 1 of the Combined Code prepared by the Committee on Corporate Governance chaired by Sir Ronald Hampel.

During the year the audit committee comprised the two independent non-executive directors, rather than three as specified by provision D3.1 of the Combined Code. The remuneration committee was chaired by the group chairman, rather than a non-executive director as specified by provisions B2.1 and B2.2 of the Combined Code. In view of the size and structure of the group, the board does not believe that these exceptions had any detrimental effect on the control environment. The non-executive directors have not been appointed for a specific term as specified by provision A6.1.

## The workings of the board and its committees

### The board

At the beginning of the year, the board comprised the chairman, chief executive, one other executive director (David Banks) and the two independent, non-executive directors. On 29 August 2003, a new finance director was appointed and on 1 September 2003 David Banks relinquished his executive role and became a non-executive director. The non-executive directors demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital to the success of the group.

The board meets at least six times per year, reviewing trading performance, ensuring adequate funding, setting and monitoring strategy, examining major acquisition possibilities and reporting to shareholders. The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully considered. To enable the board to discharge its duties, all directors receive appropriate and timely information. Briefing papers are distributed by the company secretary to all directors in advance of board meetings. The chairman ensures that the directors are able to take independent professional advice as required, at the company's expense.

The standing committees established by the board are the remuneration committee and audit committee, each of which operates within defined terms of reference.

The nominations process prior to board appointments takes into account the views of existing board members and advisers. A nomination committee has not been established as the board is small. Any director appointed to the board since the last Annual General Meeting is required to seek re-election at the subsequent Annual General Meeting. All directors are subject to re-election at least once every three years.

### Remuneration committee

The remuneration committee does not consist exclusively of the two independent non-executive directors as specified by provision B2.1 as it includes, and is chaired by, the chairman. It is responsible for making recommendations to the board, within agreed terms of reference, on the company's framework of executive remuneration and its cost, including the remuneration of subsidiary directors. The chairman's remuneration is determined by a sub-committee comprising only the two independent non-executive directors. The committee determines the contract terms, remuneration and other benefits for each of the executive directors, including performance related bonus schemes, pension rights and compensation payments. Further details of the company's policies on remuneration, service contracts and compensation payments are given in the remuneration report.

### Audit committee

The audit committee comprises the two independent non-executive directors. Meetings are also attended, by invitation, by the chairman and finance director. The committee is chaired by Tudor Davies and meets not less than twice annually. The committee provides a forum for reporting by the group's external auditors.

The audit committee is responsible for reviewing a wide range of matters including the half year and annual financial statements before their submission to the board and monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders. The audit committee advises the board on the appointment of external auditors and on their remuneration both for audit and non-audit work, and discusses the nature, scope and results of the audit with the auditors. The audit committee keeps under review the cost effectiveness and the independence and objectivity of the auditors.

The chairman of the audit committee reports the outcome of audit committee meetings to the board and the board receives minutes of the meetings.

### **Relations with shareholders**

Communications with shareholders are given high priority. The Chairman's Statement includes a review of the business and future developments. There is regular dialogue with institutional shareholders including presentations after the company's preliminary announcement of the year end results and at the half year. Information relating to the group is also available on the group's website, [www.zytronic.co.uk](http://www.zytronic.co.uk).

The board uses both the annual Report and Financial Statements and the Annual General Meeting to communicate directly with private and institutional investors and welcomes their participation. The chairman aims to ensure that the chairmen of the audit and remuneration committees are available at the annual general meeting to answer questions. Details of resolutions to be proposed at the Annual General Meeting on 4 March 2004 can be found in the Notice on pages 29 and 30.

### **Internal control**

The board is responsible for establishing and maintaining the group's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve the group's strategic objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. As an AIM listed company, the company does not need to comply with Code provision D2.1 regarding the directors giving a summary of the process applied by the board in reviewing the effectiveness of the system of internal control. Instead, the directors set out below some of the key aspects of the group's internal control procedures.

An ongoing process, in accordance with the guidance of the Turnbull Committee on internal control, has been established for identifying, evaluating and managing the significant risks faced by the group. The process has been in place for the full year under review and up to the date of approval of the annual report and financial statements. The board regularly reviews this process as part of its review of such risks within board meetings.

The board has overall responsibility for the group and there is a formal schedule of matters specifically reserved for decision by the board. Authority to operate subsidiary companies is delegated to local management within limits set by the board. The appointment of executives to the most senior positions within the group requires the approval of the board.

The board is responsible for identifying the major business risks faced by the group and for determining the appropriate course of action to manage those risks. Such risks and actions are reviewed at board meetings.

Each year the board approves the annual budget. Key risk areas are identified, reviewed and monitored. Performance is monitored against budget, relevant action is taken throughout the year and updated forecasts are prepared as appropriate. The reports reviewed by the board include reports on operational as well as financial issues.

Capital and development expenditure is regulated by a budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the board for approval. Reviews are carried out after the purchase is complete. Major overruns are investigated.

Due diligence work is carried out if a business is to be acquired.

The board has reviewed the need for an internal audit function and concluded that this is not necessary in view of the small size of the group and the close supervision by senior management of its day-to-day operations.

### **Going concern**

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.

# Remuneration Report

As an AIM listed company, Zytronic makes the following disclosures voluntarily and they are not intended to (and indeed do not) comply with the requirements of Schedule 7A of the Companies Act 1985.

The remuneration committee is responsible for determining the remuneration and other terms of employment for the executive directors of Zytronic plc and its subsidiary companies. The committee is composed of the chairman and the two independent non-executive directors. In determining remuneration for the year, the committee has given full consideration to the requirements of the Combined Code.

## Remuneration policy

The remuneration of executive directors is determined by the committee, and the remuneration of non-executive directors is approved by the full board of directors. The remuneration of the chairman is determined by the two independent non-executive directors.

The key objectives of the committee in determining the remuneration packages of executive directors are:

- the recruitment, retention and incentivisation of executive management; and
- the alignment of executive management and shareholder interests.

The remuneration packages of executive directors comprise the following elements:

### Basic salary and benefits

Basic salaries for executive directors are reviewed annually having regard to individual performance and market practice. In most cases benefits provided to executive directors comprise the provision of a company car and health insurance. Details of emoluments for the directors of Zytronic plc are set out below.

### Annual bonus

Annual bonuses are set by the committee and vary according to the extent to which pre-determined profit levels are achieved.

### Share options

The company believes that share ownership by executive directors and employees strengthens the link between their personal interests and those of the company and the shareholders.

The company has executive share option schemes, which are designed to promote long-term improvement in the performance of the company, sustained increase in shareholder value and clear linkage between executive reward and the company's performance. The share options of the directors of Zytronic plc are set out below.

It will normally be the case that, on the optionholder ceasing employment with the company, the options will be terminated. The board retains discretion to waive this where the past contribution to the business of the option holder justifies it.

The company also has two Sharesave option schemes. Membership is open to all eligible employees, including directors, who have more than six months employment with the group at any time options are offered under a scheme.

It is the view of the directors that the granting of share options to non-executive directors in no way impairs their independence.

## Service contracts

John Kennair MBE and Ian Lawson have service contracts with a notice entitlement of twelve months.

Denis Mullan entered into a service contract with effect from 1 September 2003, with a notice entitlement of six months.

Following the appointment of Denis Mullan, as finance director, the consultancy agreement with David Banks Associates, of which David Banks is a partner, to provide finance-related consultancy services to the group was terminated by mutual consent, with effect from 1 September 2003. David Banks Associates entered into a new agreement to provide the services of David Banks as a Non-Executive Director with effect from 1 September 2003.

The executive directors of subsidiary companies have service contracts which specify a written notice entitlement of not less than six months.

The committee considers the directors' notice entitlements to be appropriate as they are in line with the market and take account of the directors' knowledge and experience. There are no special provisions for predetermined compensation in the event of loss of office.

### Pension contributions

During the year, the group made annual pension contributions for the chairman (to 1 March 2003) and all of the executive directors except David Banks. The Scheme is a funded, Inland Revenue approved, contributory personal pension scheme i.e. a defined contribution scheme. Neither benefits in kind nor bonuses are pensionable.

### Non-executive directors

The fees of the non-executive directors are determined by the full board within the limits set out in the Memorandum and Articles of Association. The non-executives are not eligible for bonuses or pension benefits.

### Directors' emoluments

Emoluments of the directors for the year to 30 September 2003 are:

	Salary £'000	Fees £'000	Benefits £'000	Total emoluments* 2003 £'000	Total emoluments* 2002 £'000
<b>Chairman</b>					
John Kennair MBE	55	–	–	55	75
<b>Executive</b>					
Ian Lawson	82	–	14	96	92
Denis Mullan	6	–	–	6	–
Dr. Peter Jones	–	–	–	–	18
<b>Non-executive</b>					
David Banks**	36	1	–	37	40
Sir David Chapman, Bt	–	18	–	18	18
Tudor Davies	–	18	–	18	18
	<u>179</u>	<u>37</u>	<u>14</u>	<u>230</u>	<u>261</u>

\* excluding pension contributions

\*\* salary represents consultancy fees paid to David Banks Associates, a partnership in which David Banks is a partner. David Banks became a non-executive director on 1 September 2003.

### Directors' pensions

During the year, two directors accrued benefits under a Group personal pension scheme. Details of contributions payable by the company or its subsidiaries are:

John Kennair MBE	£1,638	(2002 – £2,250)
Ian Lawson	£2,475	(2002 – £2,062)
Denis Mullan	n/a	(2002 – n/a)
Dr Peter Jones	n/a	(2002 – £275)

### Directors' shareholdings

Beneficial interests of the directors in the shares of the company, including those of their families, were:

	30 September	
	2003 No.	2002 No.
John Kennair MBE	2,267,519	2,267,519
Ian Lawson	–	–
Denis Mullan	20,000	nil*
David Banks	4,545	4,545
Sir David Chapman, Bt	20,000	20,000
Tudor Davies	181,818	181,818

\* as at date of appointment

There has been no change in directors' shareholdings since 30 September 2003.

# Remuneration Report

(continued)

## Directors' share options

	30 September 2002 No.	Granted during year No.	Lapsed during year No.	30 September 2003 No.	Exercise dates	Option price
<b>Approved Executive Option Scheme</b>						
Ian Lawson	15,870	–	–	<b>15,870</b>	4 February 2005 to 4 February 2012	189p
<b>Unapproved Executive Option Scheme</b>						
Ian Lawson	184,130	–	–	<b>184,130</b>	4 February 2005 to 4 February 2012	189p
<b>Sharesave Scheme (2001)</b>						
John Kennair MBE	7,848	–	7,848	–	1 November 2006 to 30 April 2007	215p
David Banks	4,505	–	4,505	–	1 November 2004 to 30 April 2005	215p
Sir David Chapman, Bt	7,848	–	7,848	–	1 November 2006 to 30 April 2007	215p

To assist with meeting strong demand from staff to participate in the 2003 Sharesave Scheme, the three directors, who had been granted share options under the earlier Sharesave Scheme, gave up their rights to them.

During the year to 30 September 2003, the highest share price was 81.5p and the lowest share price was 27.5p. The market price of the shares at 30 September 2003 was 65.0p.

## Directors' interests in material contracts

During the year, in order to facilitate the relocation of Ian Lawson, the company acquired a joint interest in a long leasehold property with Kamina Properties Limited, a company connected with Ian Lawson and registered in the British Virgin Islands. Zytronic paid £75,000 (39% of the total cost) and is entitled to 39% of the net sale proceeds if the property is sold to a third party. As the intention was that Kamina Properties Limited would acquire that interest from the company, and the transaction is now taking place, the interest has been disclosed as a short term investment in the balance sheet.

As noted above, the company has paid consultancy fees to David Banks Associates, a partnership in which David Banks is a partner. At 30 September 2003 the amount due to David Banks Associates was £Nil (2002 – £1,415).

With these exceptions, no director was materially interested either at the year end or during the year in any contract of significance to the group other than their employment or service contract.

# Independent Auditors' report to the members of Zytronic plc

We have audited the group's financial statements for the year ended 30 September 2003 which comprise the Group Profit and Loss Account, Group and Company Balance Sheets, Group Statement of Cashflows and the related notes 1 to 25. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities for the Financial Statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises Business Description and Financial Highlights, Chairman's Statement, Current Directors, Corporate Governance, Remuneration Report, Directors' Report, Notice of Annual General Meeting and Current Directors and Advisors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 30 September 2003 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**Ernst & Young LLP**  
*Registered Auditor*  
Newcastle upon Tyne

6 February 2004

# Group Profit and Loss Account

for the year ended 30 September 2003

	Notes	2003 £'000	2002 £'000
<b>Group turnover</b>	2	5,690	5,066
Cost of sales		4,075	3,678
<b>Gross profit</b>		1,615	1,388
Distribution costs		80	66
Administration expenses			
– before exceptional item		1,801	1,716
– exceptional reorganisation costs	3	87	–
Total administration costs		1,888	1,716
		1,968	1,782
<b>Group operating loss</b>	3	(353)	(394)
Interest payable	5	(35)	(33)
Interest receivable	6	22	21
<b>Loss on ordinary activities before taxation</b>		(366)	(406)
Tax Credit on loss on ordinary activities	7	59	85
<b>Loss on ordinary activities after taxation</b>		(307)	(321)
Ordinary dividends on equity shares	8	–	(71)
<b>Retained loss for the year</b>	21	(307)	(392)
Loss per share – basic	9	(2.1)p	(2.2)p
Loss per share – diluted	9	(2.1)p	(2.2)p

There were no recognised gains or losses as defined in Financial Reporting Standard No. 3 other than those stated above.

The results for both the above years derive from continuing operations.

# Balance Sheets

at 30 September 2003

	Notes	Group		Company	
		2003 £'000	2002 £'000	2003 £'000	2002 £'000
<b>Fixed assets</b>					
Intangible assets	10	2,235	2,357	–	–
Tangible assets	11	2,258	2,630	–	–
Investments	12	–	–	9,448	9,448
		<b>4,493</b>	<b>4,987</b>	<b>9,448</b>	<b>9,448</b>
<b>Current assets</b>					
Short term property investment	12	75	–	75	–
Stocks	13	1,086	895	–	–
Debtors:					
Amounts falling due within one year	14	1,134	1,259	2,001	2,086
Group debtors falling due after one year	14	–	–	4,000	4,000
Cash at bank and in hand		954	1,176	5	5
		<b>3,249</b>	<b>3,330</b>	<b>6,081</b>	<b>6,091</b>
<b>Creditors: amounts falling due within one year</b>	15	<b>1,126</b>	<b>1,203</b>	<b>142</b>	<b>129</b>
<b>Net current assets</b>		<b>2,123</b>	<b>2,127</b>	<b>5,939</b>	<b>5,962</b>
<b>Total assets less current liabilities</b>		<b>6,616</b>	<b>7,114</b>	<b>15,387</b>	<b>15,410</b>
<b>Creditors: amounts falling due after more than one year</b>	16	<b>367</b>	<b>499</b>	<b>–</b>	<b>–</b>
<b>Provisions for liabilities and charges</b>					
Deferred tax	18	90	149	–	–
		<b>6,159</b>	<b>6,466</b>	<b>15,387</b>	<b>15,410</b>
<b>Capital and reserves</b>					
Called up share capital	20	143	143	143	143
Share premium	21	6,212	6,212	6,212	6,212
Merger reserve	21	–	(31)	–	–
Profit and loss account	21	(196)	142	9,032	9,055
<b>Equity shareholders' funds</b>		<b>6,159</b>	<b>6,466</b>	<b>15,387</b>	<b>15,410</b>

I B Lawson, *Director*

D G W Mullan, *Director*

6 February 2004

# Group Statement of Cashflows

for the year ended 30 September 2003

	Notes	2003 £'000	2002 £'000
Net cash inflow from operating activities	22(a)	365	635
<b>Return on investments and servicing of finance</b>			
Interest received		22	21
Interest paid		(11)	(2)
Interest element of finance lease rental payments		(34)	(21)
Net outflow from returns on investments and servicing of finance		(23)	(2)
<b>Taxation</b>			
Corporation tax (paid)/repaid		(86)	13
<b>Capital expenditure and financial investment</b>			
Payments to acquire intangible fixed assets		(80)	(264)
Payments to acquire tangible fixed assets		(198)	(756)
Payment to acquire short term property investment		(75)	–
Net outflow from capital expenditure and financial investment		(353)	(1,020)
Equity dividends paid		–	(179)
<b>Net cash outflow before financing</b>		(97)	(553)
<b>Financing</b>			
Repayment of long term loans		–	(10)
Receipts from new finance leases		–	684
Net repayment of capital element of finance leases		(125)	(101)
Net (outflow)/inflow from financing		(125)	573
<b>(Decrease)/Increase in cash</b>		(222)	20
<b>Reconciliation of net cashflow to movement in net funds</b>			
(Decrease)/Increase in cash		(222)	20
Repayment of long term loans		–	10
Receipts from new finance leases		–	(684)
Net repayments of capital element of finance leases		125	101
<b>Movement in net funds</b>		(97)	(553)
Net funds at beginning of year		552	1,105
Net funds at end of year	22(b)	455	552

# Notes to the Financial Statements

at 30 September 2003

## 1. Accounting policies

### *Basis of preparation*

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

### *Basis of consolidation*

The group results consolidate the financial statements of Zytronic plc and all its subsidiary undertakings drawn up to 30 September 2003. No profit and loss account is presented for Zytronic plc as permitted by section 230 of the Companies Act 1985.

### *Goodwill*

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life, up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. Currently goodwill is being amortised over its estimated useful life of 17 years.

If a subsidiary, associate or business is subsequently sold or closed, any goodwill arising on acquisition that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

### *Intangible assets*

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred. Development expenditure incurred on individual projects is carried forward when its future recoverability can be foreseen with reasonable certainty.

Intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Intangible assets are being amortised over the following periods.

Licenses (period of licensing agreements)	– 17 years
Capitalised development expenditure	– 4 to 10 years

### *Depreciation*

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the costs, less estimated residual value, of each asset evenly over its expected useful life, as follows:-

Plant and machinery	– varying rates between 10% and 25% per annum
---------------------	-----------------------------------------------

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

### *Stocks*

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition and net realisable value as follows:

Raw materials	– purchase cost on a first-in, first-out basis
Work in progress and finished goods	– cost of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

# Notes to the Financial Statements

(continued)

## 1. Accounting policies (continued)

### *Deferred taxation*

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exceptions:

- provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets with no likely subsequent roll over and/or available capital losses.
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### *Foreign currencies*

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

### *Leasing and hire purchase commitments*

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged to the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

### *Pensions*

The company and its subsidiaries are members of a group personal pension scheme which is a defined contribution scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

### *Warranty accounting policy*

Provisions for the expected costs of maintenance under warranties are charged against profits when products have been invoiced. The effect of the time value of money is not material and therefore the provisions are not discounted.

## 2. Group turnover

Turnover represents the invoiced amount of goods sold and services provided, stated net of value added tax.

The group operates in one continuing area of activity – the manufacture and supply of transparent composites, including touchscreens. All turnover, losses before tax and net assets are attributable to this business segment.

The analysis of turnover by geographical market is given below:

	2003 £'000	2002 £'000
United Kingdom	3,305	3,467
Western Europe	785	905
U.S.A.	1,260	495
Rest of the World	340	199
	<u>5,690</u>	<u>5,066</u>

## 3. Group operating loss

This is stated after charging:

	2003 £'000	2002 £'000
Auditors' remuneration – in respect of audit services	26	24
– in respect of non-audit services	19	15
Depreciation of owned assets	424	405
Depreciation of assets held under finance leases	74	53
Amortisation of goodwill, licences and development expenditure	202	155
Hire of plant and machinery	1	6
Operating lease rentals – plant, machinery and vehicles	53	59
– land and buildings	226	228
Research and development costs	130	59
Costs relating to merger of Intasolve Limited's operation into Zytronic Displays Limited	–	27
	<u>–</u>	<u>–</u>

The exceptional costs of £87,000 (2002 – £Nil) are reorganisation costs, principally redundancy and associated costs. £86,000 of these costs were paid during the year.

## 4. Staff costs (including directors)

	2003 £'000	2002 £'000
Wages and salaries	1,830	1,675
Social security costs	156	141
Other pension costs	26	32
	<u>2,012</u>	<u>1,848</u>

# Notes to the Financial Statements

(continued)

## 4. Staff costs (including directors) (continued)

The total of directors' emoluments is set out in the Remuneration Report. The aggregate value of contributions paid to money purchase pension schemes includes £4,000 (2002 – £5,000) in respect of 2 (2002 – 3) directors. The total for directors emoluments in 2002 included £6,000 in compensation to a former director for loss of office.

The average number of employees during the year was made up as follows:

	2003 No.	2002 No.
Production	87	77
Administration and sales	26	27
	<u>113</u>	<u>104</u>

## 5. Interest payable

	2003 £'000	2002 £'000
Finance charges payable under finance leases	34	21
Other loans	1	2
Other interest	–	10
	<u>35</u>	<u>33</u>

## 6. Interest receivable

	2003 £'000	2002 £'000
Bank deposits	16	17
Other	6	4
	<u>22</u>	<u>21</u>

## 7. Tax Credit on loss on ordinary activities

	2003 £'000	2002 £'000
<b>Current tax:</b>		
UK corporation tax recoverable	–	94
Corporation tax under provided in prior years	–	(44)
	<u>–</u>	<u>50</u>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	59	(20)
Deferred tax over provided in prior years	–	55
	<u>59</u>	<u>35</u>
Group deferred tax	59	35
	<u>59</u>	<u>85</u>
Tax Credit on loss on ordinary activities	59	85

## 7. Tax Credit on loss on ordinary activities (continued)

	2003	2002
	£'000	£'000
<b>Factors affecting current tax credit:</b>		
Loss on ordinary activities multiplied by standard rate of UK corporation tax of 30% (2002 – 30%)	110	122
Expenses not deductible for tax purposes (includes amortisation of goodwill and licences)	(70)	(54)
Deferred revenue expenses and tax credits	18	–
Accelerated capital allowances	(58)	20
Effect of marginal rates of UK corporation tax	–	6
Current tax over provided in prior years	–	(44)
	-----	-----
Total current tax	–	50
	-----	-----

### Factors that may affect future tax charges:

Under current tax legislation, the amortisation of goodwill and licenses will continue to be non-deductible for tax purposes.

## 8. Dividends

The company has not paid any dividends (2002 interim at 0.5p per share; total £71,000).

## 9. Loss per share

The calculations of loss per share are based on a loss after taxation of £307,000 (2002 – £321,000 loss) and a basic and diluted weighted average of 14,291,539 shares (2002 basic and diluted weighted average of 14,291,539 shares) in issue. The effect of options is not dilutive in the current year.

## 10. Intangible fixed assets

Group	Goodwill	Licences	Development expenditure	Total
	£'000	£'000	£'000	£'000
<b>Cost:</b>				
At 1 October 2002	366	1,928	629	2,923
Additions	–	–	80	80
	-----	-----	-----	-----
<b>At 30 September 2003</b>	<b>366</b>	<b>1,928</b>	<b>709</b>	<b>3,003</b>
	-----	-----	-----	-----
<b>Amortisation:</b>				
At 1 October 2002	45	280	241	566
Provided during the year	22	112	68	202
	-----	-----	-----	-----
<b>At 30 September 2003</b>	<b>67</b>	<b>392</b>	<b>309</b>	<b>768</b>
	-----	-----	-----	-----
<b>Net book value at 30 September 2003</b>	<b>299</b>	<b>1,536</b>	<b>400</b>	<b>2,235</b>
	-----	-----	-----	-----
Net book value at 30 September 2002	321	1,648	388	2,357
	-----	-----	-----	-----

# Notes to the Financial Statements

(continued)

## 11. Tangible fixed assets (continued)

Group	Short Leasehold Property £'000	Plant and machinery £'000	Total £'000
<b>Cost:</b>			
At 1 October 2002	26	6,699	6,725
Additions	–	126	126
<b>At 30 September 2003</b>	<b>26</b>	<b>6,825</b>	<b>6,851</b>
<b>Depreciation:</b>			
At 1 October 2002	1	4,094	4,095
Provided during the year	2	496	498
<b>At 30 September 2003</b>	<b>3</b>	<b>4,590</b>	<b>4,593</b>
<b>Net book value at 30 September 2003</b>	<b>23</b>	<b>2,235</b>	<b>2,258</b>
Net book value at 30 September 2002	25	2,605	2,630

Included in the amounts for plant and machinery are the following amounts relating to assets acquired under finance leases and hire purchase contracts:

	2003 £'000	2002 £'000
<b>Cost:</b>	<b>684</b>	<b>684</b>
Accumulated depreciation:	127	53

## 12. Investments

	Company 2003 £'000	Company 2002 £'000
Shares in subsidiary companies:		
At beginning of year	9,448	9,448
At end of year	9,448	9,448

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

Name of company	Holding	Proportion of voting rights and shares held	Nature of business
Zytronic Displays Limited	Ordinary shares	100%	Manufacture of transparent composites, including touchscreens
Intasolve Limited	Ordinary shares	100%	Non-trading
Zytronic Glass Products Limited	Ordinary shares	100%	Non-trading

The operating subsidiary operates in England.

## 12. Investments (continued)

	Group 2003 £'000	Company 2003 £'000
Short term property investment		
At 1 October 2002	–	–
Addition during the year	75	75
	-----	-----
<b>At 30 September 2003</b>	<b>75</b>	<b>75</b>
	-----	-----

During the year, in order to facilitate the relocation of Ian Lawson, the company acquired a joint interest in a long leasehold property with Kamina Properties Limited, a company connected with Ian Lawson and registered in the British Virgin Islands. Zytronic paid £75,000 (39% of the total cost) and is entitled to 39% of the net sale proceeds if the property is sold to a third party. As the intention was that Kamina Properties Limited would acquire that interest from the company, and the transaction is now taking place, the interest has been disclosed as a short term investment in the balance sheet.

## 13. Stocks

	Group 2003 £'000	Group 2002 £'000
Raw materials and consumables	498	402
Work in progress	340	281
Finished goods	248	212
	-----	-----
	<b>1,086</b>	<b>895</b>
	-----	-----

The difference between purchase price or production cost of stocks and their replacement cost is not material.

## 14. Debtors

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Trade debtors	1,010	1,133	–	–
Amounts owed by group undertakings	–	–	5,983	6,059
Prepayments and accrued income	124	126	18	27
	-----	-----	-----	-----
	<b>1,134</b>	<b>1,259</b>	<b>6,001</b>	<b>6,086</b>
	-----	-----	-----	-----

Amounts falling due after more than one year included above are:

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Amounts owed by group undertakings	–	–	4,000	4,000
	-----	-----	-----	-----

# Notes to the Financial Statements

(continued)

## 15. Creditors: amounts falling due within one year

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Obligations under finance leases (note 17)	132	125	–	–
Trade creditors	711	641	19	20
Corporation tax	–	81	–	–
Other taxes and social security costs	56	118	15	9
Other creditors and accruals	227	238	27	19
Other amounts owed to subsidiary undertakings	–	–	81	81
	<u>1,126</u>	<u>1,203</u>	<u>142</u>	<u>129</u>

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

	Group 2003 £'000	Group 2002 £'000
Obligations under finance leases (note 17)	<u>367</u>	<u>499</u>

## 17. Obligations under finance leases

	Group 2003 £'000	Group 2002 £'000
Amounts payable:		
Within one year	159	159
In two to five years inclusive	398	557
	<u>557</u>	<u>716</u>
Less: Finance charges allocated to future years	58	92
	<u>499</u>	<u>624</u>
Shown as:		
Current obligations (note 15)	132	125
Non-current obligations (note 16)	367	499
	<u>499</u>	<u>624</u>

Annual commitments under non-cancellable operating leases are as follows:

	Group Land and buildings 2003 £'000	Group Land and buildings 2002 £'000	Group Other 2003 £'000	Group Other 2002 £'000
Operating leases which expire:				
Within one year	1	4	8	15
In two to five years inclusive	–	–	46	30
Over five years	224	224	2	3
	<u>225</u>	<u>228</u>	<u>56</u>	<u>48</u>

## 18. Deferred taxation

	2003	2002
		Restated
<b>Group</b>	<b>£'000</b>	<b>£'000</b>
The deferred tax included in the balance sheet is as follows:		
Accelerated capital allowances	90	149
	-----	-----
At 1 October	149	184
Originations and reversal of timing differences	(59)	20
Deferred tax over provided in prior years	-	(55)
	-----	-----
At 30 September	90	149
	-----	-----

## 19. Derivatives and other financial instruments

The group has taken advantage of the exemption to exclude short term debtors and creditors from the disclosures given below other than currency exposures.

The group's principal financial instruments comprise finance leases and cash. The main purpose of these financial instruments is to raise finance for the group's operations. The group has various other financial instruments, such as trade debtors and trade creditors, that arise directly from its operations.

It is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken. In the year ending 30 September 2004, the board has changed this policy so that the group can enter into forward currency contracts to sell surplus US dollars and Euros.

The main risks arising from the group's financial instruments are as follows:

- foreign currency risk – the magnitude of this risk that has arisen over the period is detailed below.
- interest rate risk on floating rate financial liabilities to the extent not covered by interest rate benefit on floating rate financial assets – details of floating rate financial liabilities and assets are set out below.

### Interest rate risk

Interest rate risk profile of financial liabilities

	Floating rate financial liabilities £'000	Total £'000
<b>30 September 2003</b>		
<b>Sterling</b>	<b>499</b>	<b>499</b>
	-----	-----
30 September 2002		
Sterling	624	624
	-----	-----

Interest rate risk profile of financial assets

	Floating rate financial assets £'000	Total £'000
<b>30 September 2003</b>		
<b>Sterling</b>	<b>954</b>	<b>954</b>
	-----	-----
30 September 2002		
Sterling	1,176	1,176
	-----	-----

The floating rate financial assets comprise cash. The benchmark for floating rates on both liabilities and assets is LIBOR.

# Notes to the Financial Statements

(continued)

## 19. Derivatives and other financial instruments (continued)

### Currency exposures

As explained in 'Foreign Exchange' in the directors' report on page 4, the group's policy has been to make all payments and receive all payments in foreign currencies through the group's sterling bank accounts at the prevailing rates.

The table below shows the group's currency exposures; in other words, those transactional exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the group that are not denominated in the operating currency of the operating unit involved.

These currency exposures were:

	Net foreign currency monetary assets/(liabilities)		
	US Dollar £'000	Euro £'000	Total £'000
<b>30 September 2003</b>			
Sterling	113	134	247
	-----	-----	-----
<b>30 September 2002</b>			
Sterling	30	73	103
	-----	-----	-----

### Maturity profile of financial liabilities

	2003 £'000	2002 £'000
In one year or less, or on demand	132	125
In more than one year but not more than two	140	132
In more than two years but not more than five	227	367
	-----	-----
	499	624
	-----	-----

### Borrowing facilities

The group has an unsecured overdraft facility of £750,000 arranged with its principal banker, Lloyds TSB Bank plc. This facility extends until 28 February 2005.

### Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the group's financial assets and financial liabilities excluding short term debtors and creditors:

	Book Value 2003 £'000	Fair Value 2003 £'000	Book Value 2002 £'000	Fair Value 2002 £'000
Cash	954	954	1,176	1,176
Current portion of long term borrowings	(132)	(132)	(125)	(125)
Long term borrowings	(367)	(367)	(499)	(499)
	-----	-----	-----	-----

Fair values of fixed and floating rate financial liabilities have been calculated by discounting the expected future cash flows at prevailing interest rates.

## 20. Share capital

	2003 Thousands	2002 Thousands	2003 £'000	2002 £'000
<b>Group and Company</b>				
Authorised:				
Ordinary shares of 1p each	25,000	25,000	250	250
Allotted, called up and fully paid:				
Ordinary shares 1p each	14,292	14,292	143	143

The company has four share option schemes, the Approved Executive option scheme, the Unapproved Executive option scheme and two Sharesave schemes. Under these schemes options to subscribe for the company's shares have been granted as follows:-

	30 September 2002 No.	Granted during year No.	Lapsed during year No.	30 September 2003 No.	Exercise dates	Option price
<b>Approved Executive scheme</b>	31,740	–	15,870	15,870	4 February 2005 to 4 February 2012	189p
<b>Unapproved Executive scheme</b>	135,452	–	–	135,452	7 June 2003 to 7 June 2010	110p
	318,260	–	134,130	184,130	4 February 2005 to 4 February 2012	189p
<b>Sharesave Scheme (2001)</b>	51,898	–	51,808	90	1 November 2004 to 30 April 2007	215p
<b>Sharesave Scheme (2003)</b>	–	193,022	4,295	188,727	25 February 2006 to 25 August 2009	44p

The company has taken advantage of the exemption offered under UITF 17 for Inland Revenue approved save as you earn schemes.

## 21. Reconciliation of movements on reserves and shareholders' funds

	Called up share capital £'000	Share premium £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
<b>Group</b>					
At 1 October 2002	143	6,212	(31)	142	6,466
Transfer to profit and loss account	–	–	31	(31)	–
Loss on ordinary activities after taxation	–	–	–	(307)	(307)
Dividends	–	–	–	–	–
<b>At 30 September 2003</b>	<b>143</b>	<b>6,212</b>	<b>–</b>	<b>(196)</b>	<b>6,159</b>

# Notes to the Financial Statements

(continued)

## 21. Reconciliation of movements on reserves and shareholders' funds (continued)

	Called up share capital £'000	Share premium £'000	Profit and loss account £'000	Total £'000
<b>Company</b>				
At 1 October 2002	143	6,212	9,055	15,410
Loss on ordinary activities after taxation	-	-	(23)	(25)
Dividends	-	-	-	-
	-----	-----	-----	-----
<b>At 30 September 2003</b>	<b>143</b>	<b>6,212</b>	<b>9,032</b>	<b>15,385</b>
	-----	-----	-----	-----

A loss of £23,000 (2002 – profit £169,000), before payments of dividends of £Nil (2002 – £71,000), has been dealt with in the financial statements of the company which, under the exemption contained in Section 230 of the Companies Act 1985, has not presented its own profit and loss account.

Included in the company's opening and closing profit and loss account reserves is an amount of £8,919,000 which was a dividend received from a subsidiary company in a prior year. This is not included in group reserves and does not form part of the company's distributable reserves.

## 22. Notes to the statement of group cashflows

### (a) Reconciliation of operating loss to net cash inflow from operating activities:

	2003 £'000	2002 £'000
Operating loss	(353)	(394)
Depreciation	498	458
Amortisation	202	155
Profit on sale of fixed assets	-	3
	-----	-----
	347	222
(Increase)/Decrease in stocks	(191)	87
Decrease in debtors	130	164
Increase in creditors	79	162
	-----	-----
Net cash inflow from operating activities	365	635
	-----	-----

### (b) Analysis of net funds:

	2002 £'000	Cash Flows £'000	2003 £'000
Cash at bank and in hand	1,176	(222)	954
Finance leases	(624)	125	(499)
	-----	-----	-----
	552	(97)	455
	-----	-----	-----

### **23. Capital commitments**

Amounts contracted for at 30 September 2003 but not provided in the financial statements amounted to £Nil (2002 – £39,000) for the group and £Nil (2002 – £Nil) for the company.

### **24. Pension scheme commitments**

Contributions for the year to 30 September 2003 amounted to £26,000 (2002 – £32,000) and the outstanding contributions at the balance sheet date were £5,000 (2002 – £10,000).

### **25. Related party transactions**

Related party transactions are dealt with under the heading 'Directors' interests in material contracts' in the Remuneration Report.

## Current Directors and Advisors

<b>Directors</b>	John M Kennair MBE (Chairman) Ian B Lawson (Chief Executive) Denis G W Mullan (Finance Director) – appointed 29 August 2003 David E Banks (Non-Executive Director) Sir David Chapman, Bt (Independent Non-Executive Director) Tudor G Davies (Independent Non-Executive Director)
<b>Secretary, registered office and registration number</b>	Denis G W Mullan Patterson Street Blaydon Tyne & Wear NE21 5SG Company number: 3881244
<b>Stockbrokers and nominated adviser</b>	Brewin Dolphin Securities Limited 48 St. Vincent Street Glasgow G2 5TS
<b>Registrars</b>	Computershare Investor Services Plc Lochside House 7 Lochside Avenue Edinburgh Park Edinburgh EH12 9DJ
<b>Bankers</b>	Lloyds TSB Bank Plc P O Box 686 First Floor Black Horse House 91 Sandyford Road Newcastle upon Tyne NE99 1JW
<b>Auditors</b>	Ernst & Young LLP Citygate St James' Boulevard Newcastle upon Tyne NE1 4JD
<b>Solicitors</b>	Ward Hadaway Sandgate House 102 Quayside Newcastle upon Tyne NE1 3DX

# Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at the offices of Ward Hadaway, Sandgate House, 102 Quayside, Newcastle upon Tyne NE1 3DX on 4 March 2004 at 2.00 p.m. for the following purposes:

## Ordinary Business

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions of the Company:

1. To receive the financial statements for the year ended 30 September 2003 and the reports of the directors and auditors thereon.
2. To re-elect Mr D E Banks as a director.
3. To elect Mr D G W Mullan as a director (his appointment to the Board having occurred since the date of the last A.G.M.)
4. To reappoint Ernst & Young LLP as auditors and to authorise the directors to fix their remuneration.

## Special Business

To consider and, if thought fit, to pass the following resolutions as Special Resolutions of the Company:

1. 1.1 The Directors of the Company be and are hereby generally and unconditionally authorised (in substitution for any previous authority) for the purposes of section 80 of the Companies Act 1985 (as amended) (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) on such terms and in such manner as they shall think fit, up to an aggregate nominal value equal to £47,638 at any time (unless and to the extent previously revoked, varied or renewed by the Company in general meeting) during the period from the date hereof until the conclusion of the Company's annual general meeting held in 2005 provided that the Directors of the Company may make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority and the Directors may allot relevant securities after such expiry under this authority in pursuance of any such offer or agreement as if this authority had not expired. The authority hereby given may at any time (subject to the provisions of section 80 of the Act) be renewed, revoked or varied by ordinary resolution of the Company in general meeting;
- 1.2. the Directors of the Company be given power pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the Section 80 authority referred to above as if Section 89(1) of the Act did not apply to any such allotment, such power to expire at the conclusion of the Company's annual general meeting held in 2005 or, if earlier, the revocation of the Section 80 authority referred to above provided that before such expiry the Directors of the Company may make an offer or enter into an agreement which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities after such expiry under this power in pursuance of any such offer or agreement as if this power had not expired. The power is limited to:
  - 1.2.1. the allotment of equity securities for cash in connection with a rights issue to holders of ordinary shares of 1p each where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be practicable) to the respective numbers of ordinary shares of 1p each held by them but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any fractional entitlements or any legal or practical problems under the laws of, or the requirements of any regulatory body or any recognised stock exchange in, any territory; and
  - 1.2.2. the allotment (other than pursuant to 1.2.1 of this Special Resolution) of equity securities up to a maximum aggregate nominal amount of £7,145.77

# Notice of Annual General Meeting

(continued)

2. That the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Act to make market purchases (within the meaning of Section 163 of the Act) of ordinary shares of 1p each in the capital of the Company ("Shares") provided that:
  - 2.1 the maximum number of Shares hereby authorised to be purchased shall be 1,429,153; and
  - 2.2 the minimum price which may be paid for a Share shall be 1p; and
  - 2.3 the maximum price which may be paid for a Share shall be not more than 5% above the average of the middle market quotations for Shares on the Alternative Investment Market of the London Stock Exchange for the 5 business days immediately preceding the date of the purchase of the Share; and
  - 2.4 unless previously varied, revoked or renewed, the authority hereby conferred shall expire at the conclusion of the Company's annual general meeting held in 2005 save that the Company may prior to such expiry enter into a contract to purchase Shares which will or may be executed wholly or partly after such expiry and purchase Shares pursuant to such contract;

and that all Shares so purchased in pursuance of this authority shall be held as Treasury Shares (as defined by The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003) for future resale for cash; transfer for the purposes of an employees' share scheme; or for cancellation.

By order of the Board

**D G W Mullan FCA**  
*Company Secretary*

Zytronic plc  
Patterson Street  
Blaydon  
Tyne & Wear  
NE21 5SG

6 February 2004

## Notes:

1. Every member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and on a poll vote on their behalf. A proxy need not be a member of the Company. A prepaid form of proxy is enclosed. Completed forms of proxy must be returned to the Company's Registrars at the address shown on the form of proxy not less than 48 hours before the time appointed for the holding of the meeting. The sending of a completed form of proxy to the Company's Registrars will not preclude members from attending and voting at the meeting, or any adjournment thereof, in person, should they so wish.
2. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those holders of ordinary shares of 1p each of the Company registered in the register of members of the Company as at 2.00 p.m. on 2 March 2004 shall be entitled to attend or vote at the meeting in respect of the number of ordinary shares of 1p each of the Company registered in their name at that time. Changes to entries on the register of members after 2.00 p.m. on 1 March 2004 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
3. Copies of contracts of service between Directors and the Company or any of its subsidiary undertakings, together with the Register of Directors' share interests, will be available for inspection during normal business hours by members at the registered office of the Company on each business day from the date of this notice until the date of the Annual General Meeting, and at the place of the Annual General Meeting for at least fifteen minutes prior to, and during, that meeting.

# Form of Proxy

For use at the Annual General Meeting to be held on Thursday, 4 March 2004

Name and Address
------------------

I/We being a member/members of Zytronic plc hereby appoint the Chairman of the meeting or (see note 1)

.....  
as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at the offices of Ward Hadaway, Sandgate House, 102 Quayside, Newcastle upon Tyne NE1 3DX on Thursday, 4 March 2004, and at every adjournment thereof.

Signature ..... Dated ..... 2004

*Please indicate with an 'X' in the spaces below how you wish your votes to be cast.*

If this form is returned without any indication as to how the person appointed proxy shall vote, he/she will exercise his/her discretion as to how he/she votes or whether he/she abstains from voting.

RESOLUTIONS – Ordinary Business	FOR	AGAINST
1. To receive the financial statements for the year ended 30 September 2003		
2. To re-elect Mr D E Banks as a director		
3. To elect Mr D G W Mullan as a director		
4. To reappoint Ernst & Young LLP as auditors and to authorise the directors to fix their remuneration		
SPECIAL RESOLUTIONS – Special Business	FOR	AGAINST
1. To pass the resolution numbered 1 under the heading "Special Business" in the notice of meeting as a Special Resolution of the Company		
2. To pass the resolution numbered 2 under the heading "Special Business" in the notice of meeting as a Special Resolution of the Company		

## NOTES:

1. If you wish to appoint some other person as your proxy please delete the Chairman of the meeting and insert the full name of the proxy.
2. If the appointor is a corporation this form must be under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation or some other person duly authorised on its behalf.
3. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined by the order in which their names appear in the register of members. The signature of any one holder will be sufficient.
4. To be valid the form of proxy must be completed and returned to the Company's registrars, Computershare Investor Services PLC, to arrive no later than 48 hours before the time fixed for holding the meeting or adjourned meeting.
5. Subject to any contrary indication contained in it, this form of proxy shall confer authority to demand or join in demanding a poll and to vote on a poll on any resolution or amendment of a resolution put to, or any other business which may properly come before, the meeting for which it is given, as the proxy thinks fit.



SECOND FOLD

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Computershare Investor Services PLC  
P O Box 1075  
BRISTOL  
BS99 3FA

FIRST FOLD

THIRD FOLD, AND TUCK IN



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