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Report and Financial Statements
30 September 2002



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Summary

" With a year end cash balance of £1.2 million, the capital expenditure programme related to capacity expansion now complete and Zytouch accepted in the market place, the company is well positioned, both financially and technically, to take advantage of the contracts that have been secured. **"**

" We expect progress of Zytouch in the touchscreen market to continue through sales directly to OEMs and, in the longer term, from our new distribution agreement with 3M. This is a major step in the longer term development of the markets for Zytouch. **"**

- Strong recovery in second half, sales 45% up on first half; annual turnover down 12% to £5.1 million (2001 – £5.8 million)
- Second half operating profit £88,000; annual operating loss £394,000 (2001 – profit £706,000)
- Cash £1.2 million; net cash £0.6 million (2001 – £1.2 million)
- Touchscreens – Substantial contracts expected to start impacting in second half of 2003

Post year end

- Worldwide distribution agreement with 3M, a major world player in the touchscreen market

Chairman's Statement

(incorporating Financial and Operating Review)

"The 3M distribution agreement, combined with the contracts that have already been secured in banking, telecommunications and interactive kiosks, lead the directors to continue to be optimistic about the future prospects of the group."

The year to 30 September 2002 has seen further significant progress in the development of the business although this is yet to be reflected in the results. The initial contracts for Zytouch, the group's new touchscreen product, entered production in the last quarter of the year. Other substantial contracts in the banking and interactive kiosk markets have been secured and will come on stream in 2003, and in November a worldwide distribution agreement was completed with 3M, who are one of the leading touchscreen manufacturers in the world.

Trading Results

The events of September 2001 had a significant adverse impact on the electronic sector in general, affecting the results of Zytronic's traditional business of filters for electronic displays and slowing down the introduction of Zytouch. Although the second half saw significant recovery, with sales 45% higher than the first half, sales for the year to 30 September 2002 were 12.5% lower than the previous year at £5.1 million. The second half produced an operating profit of £88,000 reducing the overall operating loss for the year to £394,000. Cash generated from trading in the course of the year (operating profit before depreciation and amortisation) was £222,000, which combined with improvements in working capital of £413,000 to produce an overall cash inflow from operating activities of £635,000.

Outlook

With a year end cash balance of £1.2 million, the capital expenditure programme related to capacity expansion now complete and Zytouch accepted in the market place, the company is well positioned, both financially and technically, to take advantage of the contracts that have been secured.

We expect progress of Zytouch in the touchscreen market to continue through sales directly to OEMs and, in the longer term, from our new distribution agreement with 3M. They will brand our product with the 3M name and include it in their touchscreen offering through their outlets worldwide. This is a major step in the longer term development of the markets for Zytouch and provides a further endorsement of the Zytouch technology by a company who are not only a world leader in the manufacture of touchscreens, but also a world leader in technology relating to electronic information displays.

Sales of Zytouch have taken longer to achieve than anticipated and uncertainties remain in the electronics sector. Therefore, the Directors do not expect progress to be reflected in trading until the second half of the 2003 financial year. However, the 3M distribution agreement, combined with the contracts that have already been secured in banking, telecommunications and interactive kiosks, lead the directors to continue to be optimistic about the future prospects of the group.

Dividends

While our cash position is strong, in common with many new companies, we have not built up significant distributable reserves. Following a reduction in reserves during the last financial year, the Board has decided not to recommend a final dividend. On the basis of current expectations, we plan to resume the payment of dividends in respect of the year to 30 September 2003.

J M Kennair
Chairman

7 January 2003

Directors and Advisers

Directors

John M Kennair MBE (Chairman)
Ian B Lawson (Chief Executive) – appointed 30 November 2001
David E Banks (Finance Director)
Sir David Chapman, Bt (Non-Executive Director)
Tudor G Davies (Non-Executive Director)

Secretary and registered office

David E Banks
Patterson Street
Blaydon
Tyne & Wear
NE21 5SG

Stockbrokers and nominated adviser

Brewin Dolphin Securities Limited
48 St. Vincent Street
Glasgow
G2 5TS

Registrars

Computershare Investor Services Plc
PO Box 435
Owen House
8 Bankhead Crossway North
Edinburgh
EH11 4BR

Bankers

Lloyds TSB Bank Plc
P O Box 686
First Floor
Black Horse House
91 Sandyford Road
Newcastle upon Tyne
NE99 1JW

Hamburgische Landesbank
Moorgate Hall
155 Moorgate
London
EC2M 6UJ

Auditors

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JD

Solicitors

Ward Hadaway
Sandgate House
102 Quayside
Newcastle upon Tyne
NE1 3DX

Statement of Directors' Responsibilities

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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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.

Corporate Governance

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 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 workings of the board and its committees

The board

At the beginning of the year, the board comprised the chairman, managing director, one other executive director and two independent, non-executive directors. On 30 November 2001, a chief executive was appointed and on 12 December 2001 the managing director resigned. 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 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 is chaired by the group chairman and its other members are the two non-executive directors. 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 committee determines the contract terms, remuneration and other benefits for each of the executive directors, except the chairman, including performance related bonus schemes, pension rights and compensation payments. The chairman's remuneration is determined by a sub-committee comprising only the two non-executive directors.

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 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.

Corporate Governance

(continued)

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.

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 annual general meetings to answer questions. Details of resolutions to be proposed at the Annual General Meeting on 13 February 2003 can be found in the Notice on pages 30 and 31.

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.

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.

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

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 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 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 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.

The company also has a Sharesave option scheme, which 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 the 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.

David Banks Associates, a partnership in which David Banks is a partner, has entered into a consultancy agreement to provide finance-related consultancy services to the group. This agreement may be terminated at one month's notice.

None of the executive directors of subsidiary companies have service contracts with notice entitlement which exceeds twelve 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

The group makes annual pension contributions for the chairman 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.

Remuneration Report

(continued)

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 2002 are:

	Salary £'000	Fees £'000	Benefits £'000	Compensation for loss of office* £'000	Total emoluments** 2002 £'000	Total emoluments** 2001 £'000
Executive						
John Kennair MBE	75	-	-	-	75	75
Ian Lawson	69	-	23	-	92	-
David Banks***	40	-	-	-	40	30
Dr Peter Jones	9	-	3	6	18	63
Non-executive						
Sir David Chapman, Bt	-	18	-	-	18	18
Tudor Davies	-	18	-	-	18	18
	<u>193</u>	<u>36</u>	<u>26</u>	<u>6</u>	<u>261</u>	<u>204</u>

* represents a severance payment of £5,500

** excluding pension contributions

*** consultancy fees paid to David Banks Associates, a partnership in which David Banks is a partner.

Directors' pensions

There were three executive directors accruing benefits under a Group personal pension scheme. Details of contributions payable by the company or its subsidiaries are:

John Kennair MBE	£2,250 (2001 - £1,875)
Ian Lawson	£2,062 (2001 - £Nil)
Dr Peter Jones	£275 (2001 - £1,210)

Directors' shareholdings

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

	30 September	
	2002 No.	2001 No.
John Kennair MBE	2,267,519	2,262,519
Ian Lawson	-	-
David Banks	4,545	4,545
Sir David Chapman, Bt	20,000	20,000
Tudor Davies	181,818	181,818

There has been no change in directors' shareholdings since 30 September 2002.

Directors' share options

	30 September 2001 No.	Granted during year No.	Exercised during year No.	30 September 2002 No.	Exercise dates	Option price
Approved Executive Option Scheme						
Ian Lawson	-	15,870	-	15,870	4 February 2005 to 4 February 2012	189p
Unapproved Executive Option Scheme						
Ian Lawson	-	184,130	-	184,130	4 February 2005 to 4 February 2012	189p
Sharesave Scheme						
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

The remuneration committee granted the above options to Ian Lawson following his appointment as Chief Executive as part of his agreed remuneration package and in line with the company's policy on share options. On the retirement of Dr Peter Jones, the Board agreed that he could retain the options previously granted.

During the year to 30 September 2002, the highest share price was 250p and the lowest share price was 52.5p. The market price of the shares at 30 September 2002 was 66p.

No options lapsed during the year.

Directors' interests in material contracts

John Kennair MBE owns 80% of the shares of SHK Limited, which owns 83.4% of the shares of Romag Holdings Plc which in turn owns 100% of the share capital of Romag Limited, collectively "the Romag group".

Certain transactions took place at arms length during the year between Zytronic Displays Limited, the company's principal subsidiary and the Romag group. These were:

	2002 £'000	2001 £'000
Sales to the Romag group	224	146
Purchases from the Romag group	3	74

At 30 September 2002 the outstanding balance due from the Romag group was £Nil (2001 - £42,000) and the balance due to the Romag group was £Nil (2001 - £1,000). During the year the maximum amount due to the Romag group was £2,000 (2001 - £54,000) and the maximum amount due from the Romag group was £235,000 (2001 - £233,000).

Since the year end, in order to facilitate the relocation of Ian Lawson, the company has 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. The company paid £75,000 (39% of the total cost) and is entitled to 39% of the net sale proceeds if the property is sold.

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 2002 the amount due to David Banks Associates was £1,415 (2001 - £Nil).

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.

Directors' Report

The directors present their report and financial statements for the year ended 30 September 2002.

Principal activities

The group's principal activities are the manufacture of transparent composites and touchscreens used primarily for electronic displays. 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 13. The group loss after taxation amounted to £321,000 (2001 – £538,000 profit). An interim dividend of 0.5p (2001 – 0.5p) per share amounting to £71,000 (2001 – £71,000) was paid to shareholders on 21 June 2002. The directors do not recommend a final dividend (2001 – 0.75p per share amounting to £108,000).

Directors

The directors of the company are listed on page 3.

Ian Lawson was appointed as a director on 30 November 2001. All the other directors listed were directors for the whole of the year. Dr. Peter Jones resigned as a director on 12 December 2001.

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

Significant interests in shares

On 18 December 2002, 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	– 3,283,222 shares (22.97%)
John Kennair MBE	– 2,267,519 shares (15.87%)
Singer & Friedlander Investment Management Limited	– 1,855,122 shares (12.98%)
Vidacos Nominees Limited	– 600,000 shares (4.20%)
Clydesdale Bank (Head Office) Nominees Limited	– 463,500 shares (3.24%)
Prudential plc	– 438,173 shares (3.07%)

Creditor payment policy and practice

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

At 30 September 2002, the group had an average of 56 days (2001 – 45 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 (2001 – £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 in 2002 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 for 2004 and is in respect of one third of the company's issued share capital.

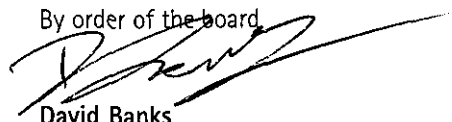
The directors consider it advisable that they continue to have power to make allotments of ordinary shares of the company for cash without reference to statutory pre-emption rights, up to a maximum of 714,577 ordinary shares, being 5% of the issued ordinary share capital of the company at 30 September 2002. The authority (special resolution 1.2 in the Notice of the Meeting) will extend until the Annual General Meeting for 2004 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 2004. 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.

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



David Banks
Secretary

7 January 2003

Independent Auditors' report to the members of Zytronic plc

We have audited the group's financial statements for the year ended 30 September 2002 which comprise the Group Profit and Loss Account, Statement of Total Recognised Gains and Losses, Group and Company Balance Sheets, Group Statement of Cash Flows and the related notes 1 to 25. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

This report has been prepared for the members of the company pursuant to Section 235 of the Companies Act 1985 (the "Act") and for no other purpose.

No person is entitled to rely on this report unless such person:

- i) is a person who is entitled to rely on this report by virtue of and for the purposes of the Act; or
- ii) has been expressly authorised to do so by our prior written consent.

Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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 Summary, Chairman's Statement, Directors and Advisers, Corporate Governance, Remuneration Report, Directors' Report, Notice of Annual General Meeting and Biographical Details of Directors seeking re-election. 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.

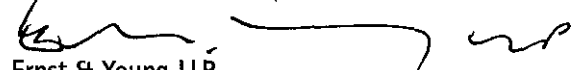
Basis of audit opinion

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 2002 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

7 January 2003

Group Profit and Loss Account

for the year ended 30 September 2002

	Notes	2002 £'000	2001 £'000
Group turnover	2	5,066	5,785
<i>Cost of sales</i>		<u>3,678</u>	<u>3,610</u>
Gross profit		1,388	2,175
Distribution costs		66	54
Administrative expenses		<u>1,716</u>	<u>1,415</u>
		<u>1,782</u>	<u>1,469</u>
Group operating (loss)/profit	3	(394)	706
Interest payable	5	(33)	(17)
Interest receivable	6	21	74
		<u>(406)</u>	<u>763</u>
(Loss)/Profit on ordinary activities before taxation		(406)	763
Tax on loss/profit on ordinary activities	7	85	(225)
		<u>(321)</u>	<u>538</u>
(Loss)/Profit on ordinary activities after taxation		(321)	538
Ordinary dividends on equity shares	8	(71)	(179)
		<u>(392)</u>	<u>359</u>
Retained (loss)/profit for the year		(392)	359
(Loss)/Earnings per share – basic	9	(2.2)p	3.8p
– diluted	9	(2.2)p	3.7p

Statement of Total Recognised Gains and Losses

for the year ended 30 September 2002

		2002 £'000	2001 £'000
<i>(Loss)/profit for the financial year</i>		<u>(321)</u>	<u>538</u>
Total recognised gains and losses relating to the year		(321)	<u>538</u>
Prior year adjustment	1	<u>(30)</u>	
Total gains and losses recognised since last annual report		<u>(351)</u>	

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

Balance Sheets

at 30 September 2002

	Notes	Group		Company	
		2002 £'000	2001 Restated £'000	2002 £'000	2001 £'000
Fixed assets					
Intangible assets	10	2,357	2,248	-	-
Tangible assets	11	2,630	2,632	-	-
Investments	12	-	-	9,448	9,448
		4,987	4,880	9,448	9,448
Current assets					
Stocks	13	895	982	-	-
Debtors:					
Amounts falling due within one year	14	1,259	1,421	2,086	2,051
Group debtors falling due after one year	14	-	-	4,000	4,000
Cash at bank and in hand		1,176	1,156	5	63
		3,330	3,559	6,091	6,114
Creditors: amounts falling due within one year	15	1,203	1,397	129	250
Net current assets		2,127	2,162	5,962	5,864
Total assets less current liabilities		7,114	7,042	15,410	15,312
Creditors: amounts falling due after more than one year	16	499	-	-	-
Provisions for liabilities and charges					
Deferred tax	18	149	184	-	-
		6,466	6,858	15,410	15,312
Capital and reserves					
Called up share capital	20	143	143	143	143
Share premium	21	6,212	6,212	6,212	6,212
Merger reserve	21	(31)	(31)	-	-
Profit and loss account	21	142	534	9,055	8,957
Equity shareholders' funds		6,466	6,858	15,410	15,312

J M Kennair MBE, Director

I B Lawson, Director

7 January 2003

Group Statement of Cashflows

for the year ended 30 September 2002

	Notes	2002 £'000	2001 £'000
Net cash inflow from operating activities	22(a)	635	679
Return on investments and servicing of finance			
Interest received		21	76
Interest paid		(2)	(6)
Interest element of finance lease rental payments		(21)	(11)
Net (outflow)/inflow from returns on investments and servicing of finance		(2)	59
Taxation			
Corporation tax repaid/(paid)		13	(116)
Capital expenditure and financial investment			
Payments to acquire intangible fixed assets		(264)	(86)
Payments to acquire tangible fixed assets		(756)	(1,190)
Receipts from sales of tangible fixed assets		-	6
Net outflow from capital expenditure and financial investment		(1,020)	(1,270)
Equity dividends paid		(179)	(214)
Net cash outflow before financing		(553)	(862)
Financing			
Repayment of long term loans		(10)	(10)
Receipts from new finance leases		684	-
Net repayment of capital element of finance leases and hire purchase contracts		(101)	(129)
Net inflow/(outflow) from financing		573	(139)
Increase/(Decrease) in cash		20	(1,001)
Reconciliation of net cashflow to movement in net funds			
Increase/(Decrease) in cash		20	(1,001)
Repayment of long term loans		10	10
Receipts from new finance leases		(684)	-
Net repayment of capital element of finance leases and hire purchase contracts		101	129
Movement in net funds		(553)	(862)
Net funds at beginning of year		1,105	1,967
Net funds at end of year	22(b)	552	1,105

Notes to the Financial Statements

at 30 September 2002

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 2002. 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.

1. Accounting policies (continued)

Deferred taxation

In order to comply with the requirements of Financial Reporting Standard No. 19, the Group has changed its accounting policy for deferred taxation during the year. The new policy is as follows:-

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.
- provision on timing differences arising when an asset is continuously revalued to fair value is only made where changes in fair value are recognised in the profit and loss account. (The group does not have any revalued assets at present.)
- provision is made for the tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable or there is a commitment for profits to be distributed. (The group does not have any overseas subsidiaries, associates or joint ventures at present.)

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.

The change in policy has had no effect on the Group profit and loss accounts or Group cash flows for any of the periods shown in these financial statements. The only adjustment to the balance sheets has been to increase the provision for deferred tax by £30,000 and reduce reserves at 30 September 2001 and 30 September 2000.

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.

Notes to the Financial Statements

(continued)

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, profit before tax and net assets are attributable to this business segment.

The analysis of turnover by geographical market is given below:

	2002 £'000	2001 £'000
United Kingdom	3,467	4,108
Western Europe	905	923
U.S.	495	588
Rest of the World	199	166
	<u>5,066</u>	<u>5,785</u>

3. Group operating (loss)/profit

This is stated after charging:

	2002 £'000	2001 £'000
Auditors' remuneration – in respect of audit services	24	22
– in respect of non-audit services	15	28
Depreciation of owned assets	405	221
Depreciation of assets held under hire purchase contracts	53	85
Amortisation of goodwill, licences and development expenditure	155	151
Hire of plant and machinery	6	23
Operating lease rentals – plant, machinery and vehicles	59	39
– land and buildings	228	228
Research and development costs	59	46
Costs relating to merger of Intasolve Limited's operation into Zytronic Displays Limited (see note 12)	27	–
	<u></u>	<u></u>

4. Staff costs (including directors)

	2002 £'000	2001 £'000
Wages and salaries	1,675	1,501
Social security costs	141	137
Other pension costs	32	21
	<u>1,848</u>	<u>1,659</u>

Details of directors' emoluments and their interests are set out in the Remuneration Report.

4. Staff costs (including directors) (continued)

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

	2002 No.	2001 No.
Production	77	79
Administration and sales	27	27
	<u>104</u>	<u>106</u>

5. Interest payable

	2002 £'000	2001 £'000
Bank loans and overdrafts	–	2
Finance charges payable under finance leases and hire purchase contracts	21	11
Other loans	2	4
Other interest	10	–
	<u>33</u>	<u>17</u>

6. Interest receivable

	2002 £'000	2001 £'000
Bank deposits	17	74
Other	4	–
	<u>21</u>	<u>74</u>

7. Tax on loss/profit on ordinary activities

	2002 £'000	2001 £'000
Current tax:		
UK corporation tax recoverable/(payable)	94	(129)
Corporation tax (under)/over provided in prior years	(44)	28
Recoverable advance corporation tax written back	–	30
	<u>50</u>	<u>(71)</u>
Deferred tax:		
Origination and reversal of timing differences	(20)	(154)
Deferred tax over provided in prior years	55	–
	<u>35</u>	<u>(154)</u>
Group deferred tax	<u>35</u>	<u>(154)</u>
Tax on loss/profit on ordinary activities	<u>85</u>	<u>(225)</u>

Notes to the Financial Statements

(continued)

7. Tax on loss/profit on ordinary activities (continued)

	2002 £'000	2001 £'000
Factors affecting current tax credit/charge:		
(Loss)/profit on ordinary activities multiplied by standard rate of UK corporation tax of 30% (2001 – 30%)	(122)	229
Expenses not deductible for tax purposes (includes amortisation of goodwill and licences)	54	53
Accelerated capital allowances	(20)	(154)
Effect of marginal rates of UK corporation tax	(6)	1
Current tax under/(over) provided in prior years	44	(28)
Recoverable advance corporation tax written back	–	(30)
Total current tax	(50)	71

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

	2002 £'000	2001 £'000
Paid: Interim dividend of 0.5p (2001 – 0.5p) per share	71	71
Proposed: There is no proposed final dividend (2001 – 0.75p per share)	–	108
	71	179

9. Loss/earnings per share

The calculations of loss/earnings per share are based on a loss after taxation of £321,000 (2001 – £538,000 profit) and a basic and diluted weighted average of 14,291,539 shares (2001 basic weighted average of 14,291,539 shares and diluted weighted average of 14,381,760 shares) in issue. The difference between the basic and diluted weighted average number of shares in 2001 relates to share options. The effect of options is not dilutive in the current year.

10. Intangible fixed assets

Group	Goodwill £'000	Licences £'000	Development expenditure £'000	Total £'000
Cost:				
At 1 October 2001	366	1,928	365	2,659
Additions	-	-	264	264
At 30 September 2002	366	1,928	629	2,923
Amortisation:				
At 1 October 2001	24	168	219	411
Provided during the year	21	112	22	155
At 30 September 2002	45	280	241	566
Net book value at 30 September 2002	321	1,648	388	2,357
Net book value at 30 September 2001	342	1,760	146	2,248

11. Tangible fixed assets

Group	Plant in the course of construction £'000	Plant and machinery £'000	Total £'000
Cost:			
At 1 October 2001	1,297	4,981	6,278
Additions	-	459	459
Disposals	-	(12)	(12)
Transfers	(1,297)	1,297	-
At 30 September 2002	-	6,725	6,725
Depreciation:			
At 1 October 2001	-	3,646	3,646
Provided during the year	-	458	458
Disposals	-	(9)	(9)
At 30 September 2002	-	4,095	4,095
Net book value at 30 September 2002	-	2,630	2,630
Net book value at 30 September 2001	1,297	1,335	2,632

Notes to the Financial Statements

(continued)

11. Tangible fixed assets (continued)

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

	2002 £'000	2001 £'000
Cost:	684	856
Accumulated depreciation:	53	374

12. Investments

	Company 2002 £'000	Company 2001 £'000
Shares in subsidiary companies:		
At beginning of year	9,448	9,523
Release of provision for deferred consideration	—	(75)
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. During the year, the operation of Intasolve Limited, which operated in England, was merged into the operation of Zytronic Displays Limited and Intasolve Limited became non-trading.

13. Stocks

	Group 2002 £'000	Group 2001 £'000
Raw materials and consumables	402	336
Work in progress	281	212
Finished goods	212	434
	895	982

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

14. Debtors

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Trade debtors	1,133	1,227	-	-
Amounts owed by group undertakings	-	-	6,059	6,003
Prepayments and accrued income	126	194	27	48
	<u>1,259</u>	<u>1,421</u>	<u>6,086</u>	<u>6,051</u>

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

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Amounts owed by group undertakings	-	-	4,000	4,000

15. Creditors: amounts falling due within one year

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Current instalments due on loans	-	10	-	-
Obligations under finance leases and hire purchase contracts (note 17)	125	41	-	-
Trade creditors	641	961	20	37
Corporation tax	81	116	-	-
Other taxes and social security costs	118	39	9	10
Other creditors and accruals	238	122	19	14
Proposed dividend	-	108	-	108
Other amounts owed to subsidiary undertakings	-	-	81	81
	<u>1,203</u>	<u>1,397</u>	<u>129</u>	<u>250</u>

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

	Group 2002 £'000	Group 2001 £'000
Obligations under finance leases and hire purchase contracts (note 17)	<u>499</u>	<u>-</u>

Notes to the Financial Statements

(continued)

17. Obligations under leases and hire purchase contracts

	Group 2002 £'000	Group 2001 £'000
Finance leases and hire purchase contracts		
Amounts payable:		
Within one year	159	42
In two to five years inclusive	557	-
	716	42
Less: Finance charges allocated to future years	92	1
	624	41
Shown as:		
Current obligations (note 15)	125	41
Non-current obligations (note 16)	499	-
	624	41

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

	Group Land and buildings 2002 £'000	Group Land and buildings 2001 £'000	Group Other 2002 £'000	Group Other 2001 £'000
Operating leases which expire:				
Within one year	4	4	15	22
In two to five years inclusive	-	-	30	8
Over five years	224	224	3	3
	228	228	48	33

18. Deferred taxation

	2002 £'000	2001 Restated £'000
Group		
The deferred tax included in the balance sheet is as follows:		
Accelerated capital allowances	149	184
At 1 October 2001 as reported	154	
Prior year adjustment - change in accounting policy (note 1)	30	
At 1 October 2001 as restated	184	
Deferred tax credit in group profit and loss account (note 7)	(35)	
At 30 September 2002	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, hire purchase contracts 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.

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 profile of financial liabilities

	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Total £'000
30 September 2002			
Sterling	624	-	624
30 September 2001			
Sterling	-	51	51

The floating rate financial liabilities comprise a finance lease with interest based on LIBOR.

	Fixed rate financial liabilities	
	Weighted average interest rate %	Weighted average period for which rate is fixed years
30 September 2002		
Sterling	-	-
30 September 2001		
Sterling	9.6	1

Notes to the Financial Statements

(continued)

19. Derivatives and other financial instruments (continued)

Interest rate risk profile of financial assets

	Floating rate financial assets £'000	Total £'000
30 September 2002		
Sterling	1,176	1,176
30 September 2001		
Sterling	1,156	1,156

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

Currency exposures

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	Other £'000
30 September 2002			
Sterling	30	73	–
30 September 2001			
Sterling	151	19	(7)

Maturity profile of financial liabilities

	2002 £'000	2001 £'000
In one year or less, or on demand	125	51
in more than one year but not more than two	132	–
In more than two years but not more than five	367	–
	624	51

Borrowing facilities

The group has an unsecured overdraft facility of £500,000 arranged with its principal bankers, Lloyds TSB Bank plc. This facility extends until 30 September 2003.

19. Derivatives and other financial instruments (continued)

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 2002 £'000	Fair Value 2002 £'000	Book Value 2001 £'000	Fair Value 2001 £'000
Cash	1,176	1,176	1,156	1,156
Short term borrowings and current portion of long term borrowings	(125)	(125)	(51)	(51)
Long term borrowings	(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

	2002 Thousands	2001 Thousands	2002 £'000	2001 £'000
Group and Company				
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 three share option schemes, the Approved Executive option scheme, the Unapproved Executive option scheme and the Sharesave scheme. Under these schemes options to subscribe for the company's shares have been granted as follows:-

	30 September 2001 No.	Granted during year No.	Lapsed during year No.	30 September 2002 No.	Exercise dates	Option price
Approved Executive scheme	-	31,740	-	31,740	4 February 2005 to 4 February 2012	189p
Unapproved Executive scheme	135,452	-	-	135,452	7 June 2003 to 7 June 2010	110p
	-	318,260	-	318,260	4 February 2005 to 4 February 2012	189p
Sharesave Scheme	70,088	-	18,190	51,898	1 November 2004 to 30 April 2007	215p

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

Notes to the Financial Statements

(continued)

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
Group					
At 1 October 2001 as reported	143	6,212	(31)	564	6,888
Prior year adjustment relating to change in accounting policy for deferred tax- see note 1	-	-	-	(30)	(30)
At 1 October 2001 as restated	143	6,212	(31)	534	6,858
Loss on ordinary activities after taxation	-	-	-	(321)	(321)
Dividends	-	-	-	(71)	(71)
At 30 September 2002	143	6,212	(31)	142	6,466

	Called up share capital £'000	Share premium £'000	Profit and loss account £'000	Total £'000
Company				
At 1 October 2001	143	6,212	8,957	15,312
Profit on ordinary activities after taxation	-	-	169	169
Dividends	-	-	(71)	(71)
At 30 September 2002	143	6,212	9,055	15,410

A profit of £169,000 (2001 – £92,000), before payments of dividends of £71,000 (2001 – £179,000), 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/profit to net cash inflow from operating activities:

	2002 £'000	2001 £'000
Operating (loss)/profit	(394)	706
Depreciation	458	306
Amortisation	155	151
Loss/(profit) on sale of fixed assets	3	(6)
	<u>222</u>	<u>1,157</u>
Decrease/(increase) in stocks	87	(145)
Decrease/(increase) in debtors	164	(163)
Increase/(decrease) in creditors	162	(170)
	<u>635</u>	<u>679</u>

(b) Analysis of net funds:

	2001 £'000	Cash Flows £'000	2002 £'000
Cash at bank and in hand	1,156	20	1,176
External loans	(10)	10	-
Finance leases	(41)	(583)	(624)
	<u>1,105</u>	<u>(553)</u>	<u>552</u>

23. Capital commitments

Amounts contracted for at 30 September 2002 but not provided in the financial statements amounted to £39,000 (2001 – £228,000) for the group and £Nil (2001 – £Nil) for the company.

24. Pension scheme commitments

Contributions for the year to 30 September 2002 amounted to £32,000 (2001 – £21,000) and the outstanding contributions at the balance sheet date were £10,000 (2001 – £4,000).

25. Related party transactions

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

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 13 February 2003 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 2002 and the reports of the directors and auditors thereon.
2. To re-elect Sir David Chapman, Bt as a director.
3. To re-elect Mr T G Davies as a director.
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 2004 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 2004 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

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

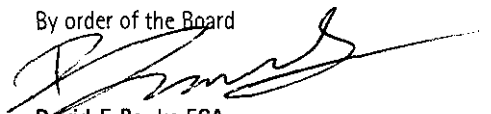
2.2 the minimum price which may be paid for a Share shall be 1p; and

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 2004 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 cancelled immediately upon completion of the purchase and the amount of the Company's issued share capital (but not authorised share capital) shall be reduced by the nominal amount of the Shares so purchased.

By order of the Board



David E Banks FCA

Company Secretary

Zytronic plc

Patterson Street

Blaydon

Tyne & Wear

NE21 5SG

7 January 2003

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 34 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 11 February 2003 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 as at 2.00 p.m. on 11 February 2003 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 by members at the registered office of the Company during normal business hours on each business day prior to the date of the Annual General Meeting and at the place of the Annual General Meeting for fifteen minutes prior to and during that meeting.

Biographical Details of Directors seeking re-election

The biographical details of directors who are being proposed for re-election at the Annual General Meeting are as follows:-

Sir David Robert Macgowan Chapman Bt., DL, B Comm, (aged 61). 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. He recently 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 (aged 51). Non-executive director. Formerly a partner in Arthur Young (now part of Ernst & Young) 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.

ZYTRONIC PLC

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