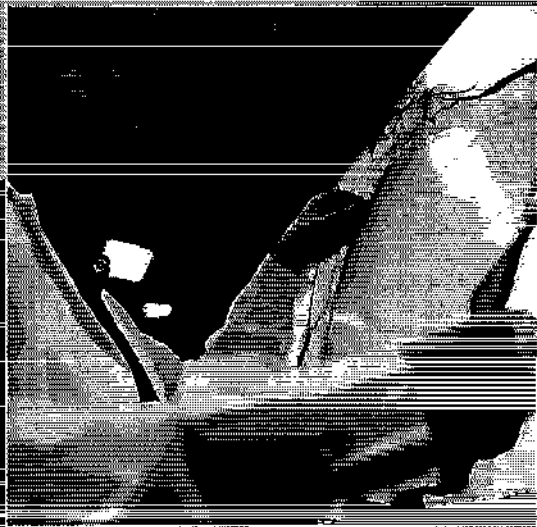
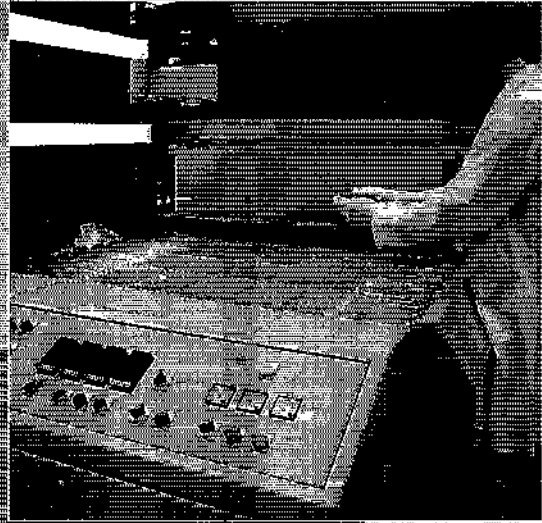


ZYTRONICS PLC

PLACING AND OFFER FOR SUBSCRIPTION

NOMINATED ADVISOR BREWIN DOLPHIN SECURITIES LIMITED
NOMINATED BROKER BELL LAWRIE WHITE



THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document and what action you should take, you are recommended to seek your own financial advice from your stockbroker, bank manager, solicitor, accountant or other independent adviser authorised under the Financial Services Act 1986 immediately.

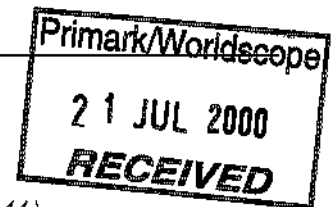
Application has been made for the Ordinary Shares to be admitted to trading on the Alternative Investment Market of the London Stock Exchange ("AIM"). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk than that associated with established companies tends to be attached. A prospective investor should be aware of the potential risks in investing in such companies and should make the decision to invest only after careful consideration and consultation with his or her own independent financial adviser. The rules of AIM are less demanding than those of the Official List of the London Stock Exchange. It is emphasised that no application is being made for admission of these securities to the Official List of the London Stock Exchange. Further, the London Stock Exchange has not itself approved the contents of this document.

It is expected that Admission to AIM will become effective and that dealings in the Ordinary Shares will commence on 6 July 2000.

The Directors, whose names are set out on page 5 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts, and there is no other material information the omission of which is likely to affect the import of such information.

Zytronic plc

(Incorporated in England and Wales Registered Number 3881244)



**Placing and Offer for Subscription of up to 6,036,363 New Ordinary Shares
of 1p each at a price of 110p per share payable
in full upon application
and**

Admission to Trading on the Alternative Investment Market

Authorised		Share Capital	Issued and fully paid*	
£	Number	(immediately following Admission)	£	Number
250,000	25,000,000	ordinary shares of 1p each	141,206	14,120,558

* assuming that the Placing and the Offer for Subscription are fully subscribed

The subscription list for the New Ordinary Shares will open at 10.00 am on 9 June 2000, and may be closed at any time thereafter but not later than 3.00 pm on 3 July 2000, unless extended by Brewin Dolphin Securities and the Directors.

A copy of this document has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the Public Offers of Securities Regulations 1995. This document has been drawn up in accordance with the Public Offers of Securities Regulations 1995.

Brewin Dolphin Securities is acting exclusively for Zytronic plc and no one else in connection with the matters described herein and will not be responsible to anyone other than Zytronic plc for providing the protections afforded to customers of Brewin Dolphin Securities or for advising them on the contents of this document or any matter referred to herein.

The whole text of this document should be read. Your attention is drawn to the section entitled "Risk Factors" on pages 13 and 14 of this document.

CONTENTS

	<i>Page</i>
DEFINITIONS	3
DIRECTORS, SECRETARY AND ADVISERS	5
PART I KEY INFORMATION	6
PART II INFORMATION ON THE COMPANY	7
PART III ACCOUNTANTS' REPORTS ON ZYTRONIC AND THE COMPANY	15
PART IV ADDITIONAL INFORMATION	35
PART V TERMS AND CONDITIONS OF APPLICATION	48
PART VI OFFER FOR SUBSCRIPTION APPLICATION FORM	53

DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

“Act”	Companies Act 1985, as amended
“Admission”	the admission of the Ordinary Shares to trading on AIM becoming effective in accordance with the Rules of the London Stock Exchange
“AIM”	the Alternative Investment Market of the London Stock Exchange
“AIM Rules”	the rules set out in Chapters 16 and 17 of the Rules of the London Stock Exchange
“Application Form”	the application form to subscribe for New Ordinary Shares pursuant to the Offer set out at the end of this document
“Brewin Dolphin Securities”	Brewin Dolphin Securities Limited (which is regulated by the Securities and Futures Authority Limited and is a member of the London Stock Exchange)
“Company”	Zytronic plc
“Demerger”	the series of transactions whereby Zytronic left the Romag Group and became a subsidiary of the Company details of which are set out in paragraph 11 of Part IV
“Directors” or “Board”	the Directors of the Company, whose names are set out on page 5 of this document
“Group”	the Company, its wholly owned trading subsidiary, Zytronic, and its dormant subsidiary Romag Glass Products Holdings Limited
“Issue Price”	the price of 110p per share at which New Ordinary Shares are being issued in terms of the Placing and the Offer
“London Stock Exchange”	London Stock Exchange Limited
“Maximum Subscription”	the sum of £6.64 million being raised under the Placing and the Offer
“Minimum Subscription”	the sum of £5.64 million being raised under the Placing and the Offer
“New Ordinary Shares”	up to 6,036,363 new Ordinary Shares to be issued pursuant to the Placing and Offer
“OEM”	original equipment manufacturer
“Offer”	the invitation to subscribe for the Offer Shares contained in this document
“Offer Shares”	up to 909,090 of the New Ordinary Shares which are to be issued pursuant to the Offer
“Ordinary Shares”	the Ordinary Shares of 1p each in the Company
“Placing”	the conditional placing of 5,127,273 New Ordinary Shares by Brewin Dolphin Securities under the terms of the Placing and Offer Agreement
“Placing and Offer Agreement”	the conditional agreement dated 8 June 2000 between (1) Brewin Dolphin Securities, (2) the Company and (3) the Directors relating to the Placing and the Offer details of which are set out in paragraph 13 of Part IV of this document
“Placing Price”	110p per New Ordinary Share
“Priority Application Form”	the application form to subscribe for New Ordinary Shares pursuant to the Offer to be used by Qualifying Shareholders
“Qualifying Shareholders”	holders of Ordinary Shares on the register as at the date of this Prospectus (other than shareholders who are unable to comply with Part V of this document)

“Regulations”

the Public Offers of Securities Regulations 1995

“Romag Group”

Romag Holdings Plc, its current subsidiary Romag Limited and its former subsidiary, Zytronic

“Zytronic”

Zytronic Displays Limited (formerly Romag Glass Products Limited), the Company’s wholly owned trading subsidiary

DIRECTORS, SECRETARY AND ADVISERS

Directors	John M Kennair MBE (<i>Chairman</i>) Dr Peter C Jones (<i>Managing Director</i>) David E Banks (<i>Finance Director</i>) Sir David Chapman Bt., DL (<i>Non-Executive Director</i>) Tudor G Davies (<i>Non-Executive Director</i>) all of: Zytronic plc Patterson Street Blaydon on Tyne Tyne & Wear NE21 5SG
Secretary and Registered Office	David E Banks FCA Zytronic plc Patterson Street Blaydon on Tyne Tyne & Wear NE21 5SG
Nominated Adviser	Brewin Dolphin Securities Limited 48 St. Vincent Street Glasgow G2 5TS
Nominated Broker	Bell Lawrie White (a division of Brewin Dolphin Securities Limited) 48 St. Vincent Street Glasgow G2 5TS
Auditors and Reporting Accountants	Ernst & Young Norham House 12 New Bridge Street West Newcastle upon Tyne NE1 8AD
Solicitors to the Company	Ward Hadaway Sandgate House 102 Quayside Newcastle upon Tyne NE1 3DX
Solicitors to Nominated Adviser and Nominated Broker	Maclay Murray & Spens 151 St. Vincent Street Glasgow G2 5NJ
Bankers	Hamburgische Landesbank Moorgate Hall 155 Moorgate London EC2M 6UJ
Registrars	Computershare Services PLC PO Box 435 Owen House 8 Bankhead Crossway North Edinburgh EH1 1 4BR
Receiving Agents	Computershare Services PLC PO Box 859 The Pavilions Bridgwater Road Bristol BS99 1XZ

PART I

KEY INFORMATION

PLACING AND OFFER STATISTICS

	Maximum Subscription	Minimum Subscription
Issue Price	110p	110p
Market capitalisation at the Issue Price	£15.53 million	£14.53 million
Number of Ordinary Shares in issue following the Placing and Offer	14,120,558	13,211,468
Number of New Ordinary Shares being issued under the Placing and Offer	6,036,363	5,127,273
Proceeds of the Placing and Offer receivable by the Company, net of expenses	£6.14 million	£5.15 million

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Subscription List for the Offer opens	2000 10.00 pm on 9 June
Subscription List for the Offer closes	3.00 pm on 3 July
Dealings to commence in the Ordinary Shares	8.30 am on 6 July
Share certificates in respect of the Ordinary Shares to be despatched and/or CREST accounts credited	6 July

PART II

INFORMATION ON THE COMPANY

Introduction

Zytronic is a designer and manufacturer of customised transparent composites primarily used for electronic information displays and has supplied specialist composites for this application for the past 15 years. Its existing products are sold to the Automated Telling Machine ("ATM") OEMs as well as computer, telecommunications, lighting and medical companies in more than a dozen countries in North America, Europe and the Middle East. The use of electronic information displays has increased significantly in recent years and in the Directors' opinion this rate of growth will continue.

Zytronic's principal product lines are:

- optical filters for electronic display screens
- shielded filters to minimise electromagnetic emissions from display screens
- specialised light diffusers particularly for railway rolling stock.

The Directors believe there are good growth prospects within these existing product lines. The above activities achieved turnover in the financial year to 30 September 1999 of approximately £3.9 million and operating profits of approximately £524,000.

In addition, Zytronic has recently acquired a licence to an innovative and patented touchscreen technology. The combination of this licence with Zytronic's existing manufacturing expertise and established position with major OEMs will, the Directors believe, enable it to develop and market potentially exciting additional product lines to a significantly larger target market.

Zytronic already processes touchscreen components for two of the world's largest suppliers. The acquisition of the licence will enable Zytronic to supply complete touchscreen systems into the rapidly expanding touchscreen market, which was conservatively estimated by the Directors to be worth, in 1999, between £300 million and £400 million per annum worldwide. The Directors believe that Zytronic's touchscreens will have a number of advantages over those currently in the market including cost effectiveness, improved robustness and performance in adverse environmental conditions. Existing and new customers have expressed considerable interest in these new products.

The Directors expect to complete the development phase and commercially launch the new touchscreen product lines during the next 12 months.

History

Zytronic's activities have been demerged from the Romag Group which has been involved in glass processing since 1970. In recent years its activities have been focused on manufacturing and selling transparent composites into specialist markets. Zytronic's business has exhibited strong growth and the Directors of the Romag Group determined in late 1999 that its future would be better secured if it were independent. The Company (which has been recently established as a holding company as part of the Demerger) and its subsidiary Zytronic is fully independent of the Romag Group. Details of the Demerger are set out in paragraph 11 of Part IV.

The Technology

Zytronic, which operates from modern factory premises, assembles special glasses and plastics in environmentally controlled clean rooms and processes these through high temperature and pressure autoclaves to produce products to exacting optical specifications. The products are, in most cases, manufactured to meet national and international standards and are tested at independent laboratories.

The core technology involves bonding together, with specialist adhesives, two or more layers of glass, polycarbonate, acrylic or other plastic material to produce a composite tailored to the customer's specification. The choice of bonding medium is critical to meeting the performance and durability requirements of the product. Zytronic's expertise includes a thorough understanding of material and adhesive properties and this enables it to provide its customers with a cost effective and bespoke product. The bonding process is carried out under carefully controlled conditions of temperature and pressure.

A number of features are incorporated into the composite to produce special characteristics, including:

- spectrally selective interlayers and polarizers to enhance readability under adverse lighting conditions
- transparent conductive coatings or wire systems for heating
- anti-reflection coatings and etched glasses to reduce or diffuse reflections
- screen-printing for aesthetic effect
- light control louvered films for secure viewing
- chemically or thermally toughened glass for high impact resistance
- flat or curved form.

For electromagnetic interference filters ("shielded filters") a conductive medium is incorporated within the composite. This can be a micro-fine woven mesh or a transparent coating.

The Company has pursued the policy of maintaining "know how" in-house and does not patent or otherwise publicise new ideas or techniques for its products or processes.

Existing Products and Markets

The use of electronic information displays has increased significantly over the past ten years and the Directors believe it is poised for further rapid expansion. As these displays have become more widely used, Zytronic has supplied filters to cater for a wide variety of requirements including improving readability in sunlight, minimising the emission of electromagnetic radiation, and providing robustness in the face of malicious damage.

Optical Filters

Zytronic's sales of optical filters have increased substantially over the last three years with sales of approximately £2.4 million in the financial year ended 30 September 1999. The main applications are for ATM OEMs and computer, telecommunications, lighting and medical companies. The trend is for OEMs to specify larger flat panel displays requiring more sophisticated filters. To meet this requirement Zytronic has developed a new multi-layer sunlight viewable filter which is attracting considerable interest from customers.

Shielded Filters

Shielded filters represents the second largest product line. These filters were first used in the 1980's to combat electronic eavesdropping and interference to military communications equipment.

The problem of interference to the operation of electronic equipment has resulted in a number of new regulations by the US Federal Communications Commission and the European Union, which set the maximum level of emissions for all electrical and electronic equipment. This is resulting in demand for shielded filters from manufacturers of communications equipment, electronic racks, mobile phones and electronic test and measuring equipment. Zytronic is also a long established supplier of shielded filters for military computer applications in both the USA and Europe.

New products are introduced by Zytronic on a regular basis to meet customers' changing requirements. This commitment to product development has served Zytronic well in establishing it as a leading manufacturer in this niche market both in Europe and for the USA.

Light Diffusers

Zytronic manufactures curved laminated light diffusers for use in railway rolling stock. The manufacture of such shapes is an extremely complex process. Over the past four years Zytronic has received contracts with a total value in excess of £1 million for London Underground, Stockholm Metro, and Kowloon Canton Railway. Sales of diffusers at present represent less than 10 per cent of total sales but the installation of a new toughening plant which has the specialist capability of processing thin glass should provide other opportunities in the lighting industry and office equipment market.

Market Size

Zytronic currently operates in small niche markets, the sizes of which are difficult to establish due to the lack of independent data. However, the executive Directors, based on their knowledge and experience over the last 15 years estimate that the markets for the above products in Western Europe and North America was in the range of £25 million to £28 million in 1999.

New Products and Markets

In the last four years Zytronic has made substantial investment in research and development. Zytronic has also designed and installed proprietary production equipment enabling new developments to be produced in an efficient and cost effective manner. Whilst the research and development programme for existing products will continue, the principal thrust will be to work with potential customers to turn the new touchscreen technology into specific products which will be marketed into the fields of:

- interactive kiosks including ATMs
- computers – personal, commercial and industrial
- telecommunications
- medical equipment
- gaming machines

Over the past five years the market for touchscreens has expanded rapidly as a result of the promotion and widespread acceptance of new touchscreen technology including infrared, surface acoustic wave and capacitive touchscreens. Such touchscreens offer significant advantages in many applications over older resistive technology which uses a thin polyester film as the external surface as opposed to a more resilient glass sheet. However, even in the newer commercially available systems the active touch sensor is located on the front surface of the touchscreen and thus is at risk from malicious damage and environmental factors. Zytronic's newly licensed technology incorporates horizontal and vertical wires within the laminate connected to a controller board. The system operates through glass up to 25mm (1 in) in thickness giving significant advantages in its use in interactive kiosks (including ATMs) and gaming machines.

The Directors believe that the Zytronic's touchscreens will have a number of advantages over those currently in the market including cost effectiveness, improved robustness and performance in adverse environmental conditions.

The techniques for processing and assembling micro-fine wires within glass and plastic laminates are already known to Zytronic. Consequently the Directors believe that Zytronic is well placed to exploit its rights under the touchscreen licence.

The new technology has been used by the inventor for the manufacture of less sophisticated plastic film touch screens which have been used in gaming machines (sales to date 7,000 units), shop window advertising, estate and travel agents and public information systems at the Millennium Dome. Prototypes are being manufactured by Zytronic for evaluation by prospective customers so that specifications can be determined and market opportunities can be defined. These prototypes whilst based on the licenced rights also incorporate significant refinements based on Zytronic's expertise. It is envisaged that touchscreens will be available in commercial quantities by mid 2001.

Financial Results

Financial information on the Company and on Zytronic, its only trading subsidiary, is set out in the Accountants' Reports in Part III. As part of the process of demerging Zytronic's business from the Romag Group, certain assets and part of Zytronic's trade were transferred out of Zytronic to the Romag Group as at 1 October 1999. This trade is included in the Accountants' Report on Zytronic under the heading represented by "Discontinued operations". Consequently, the on-going business of Zytronic is represented by "Continuing operations".

In the year to 30 September 1999, sales from continuing operations rose by 16 per cent over the previous year to £3.9 million and operating profit rose by just under 30 per cent to £524,000. Direct comparisons with the accounting period to 30 September 1997 are not meaningful because that period covered eighteen months.

Zytronic's net borrowings at 30 September 1999 amounted to £1.9 million, including obligations under finance leases and hire purchase contracts but excluding amounts owed to companies in the Romag Group. Following receipt of cash from the Placing and Offer and the repayment of amounts due to the Romag Group, Zytronic is expected to have no net borrowings.

Current Trading, Prospects and Strategy

In the period since 1 October 1999, Zytronic has performed in line with the Board's expectations for both shipments and operating profit.

The Directors anticipate that the market for Zytronic's existing products will continue to grow in the foreseeable future driven in part by the growth in use of electronic information displays and the demand for more sophisticated, higher value filters for larger displays.

In addition to the development of its existing business, the Directors believe Zytronic has the opportunity to expand its business significantly in the touchscreen market. Zytronic already processes touchscreen components for two of the world's largest touchscreen suppliers.

The acquisition of the licence for the new touchscreen technology will enable Zytronic to supply complete touchscreen systems into the rapidly expanding touchscreen market, which was conservatively estimated by the Directors to be worth, in 1999, between £300 million and £400 million per annum worldwide. Prototype units are currently being produced for evaluation and field-testing by a number of targeted customers.

Use of Proceeds

In order to establish its technology Zytronic has received considerable loan funding from the Romag Group and up to £3.93 million of the net proceeds of the Placing and Offer will be used to repay bank debt and balances due to the Romag Group of £2.3 million.

The balance of the net funds raised, amounting to between £1.2 million and £2.2 million will be employed for the acquisition of capital equipment particularly for the touchscreen business, for working capital and acquisitions, should such opportunities arise.

Directors and Employees

Executive Directors

John Martin Kennair MBE (age 56) Executive Chairman. John Kennair initially worked in stockbroking in the City of London. Thereafter he worked as a systems analyst and programmer designing financial software packages. He joined Romag 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 has been responsible for the development of the glass business of the Romag Group from sales of approximately £80,000 per annum to £16 million in the last financial year to September 1999.

Dr Peter Christopher Jones (age 57) Managing Director. Peter Jones was appointed Managing Director of Zytronic in July 1995. He joined Romag Holdings plc as Group Marketing Director in April 1986. Prior to this he was employed from 1970 to 1986 in various market development and general management roles with International Nickel Limited. Following the completion of his Ph.D. thesis in the field of electrochemistry in 1968, he was group leader of advanced battery and fuel cells research and development at Energy Conversion Limited.

David Eric Banks MA, FCA (age 46) Finance 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 ProTurn Limited, which specialises in corporate turnaround.

Further details of the Directors and of their contractual arrangements are set out in paragraphs 5 and 7 of Part IV.

Non-Executive Directors

Sir David Robert Macgowan Chapman Bt., DL, B Comm (age 58) Non-Executive Director. A former board member of the London Stock Exchange (1979-88) and the Exchange's nominee on the Greenbury Committee on Corporate Governance, Sir David is a Director of Northern Rock plc and High Gosforth Park Ltd. He is also on the board of several small venture capital funds including the North East Regional Investment Fund Ltd. Other interests include membership of the Northern Regional Council of the CBI and the Council of the University of Durham. Sir David joined Merrill Lynch International Bank in Newcastle as First Vice President in July 1999 after 33 years with Wise Speke, the regional stockbroker, where he held various positions.

Tudor Griffith Davies BSc (age 48) Non-Executive Director. Formerly a partner in Arthur Young (now part of Ernst & Young) specialising in corporate finance and recovery, he joined Hicking Pentecost plc in 1990 as Managing Director and later became Chief Executive and was Chairman until 1999. He has wide industry experience at boardroom level, both as an executive and non-executive director.

Key Employees

Mark Cambridge B.Sc (age 36) was appointed as Technical and Quality Director of Zytronic in March 2000. He is responsible for all aspects of that company's product and process and the systems management of that company's accreditation to the ISO 9002 quality standard. Prior to joining Romag Group in 1991, he held the position of Quality Research Engineer with George Blair Plc. From 1986 until 1989 he worked for United Kingdom Atomic Energy Authority on the irradiation examination of advanced gas reactor fuel cells.

Ernest Carr MIOSH (age 52) joined Romag Group as Production Manager in 1986 and was appointed to the position of Production Director of that company in 1993. Prior to his appointment with Romag he held the position of Production Manager with the Ronson Group for two years having spent 18 years employed by NEI Reyrolle initially in an engineering role and later in a supervisory capacity.

Susan Jordan BA (age 39) is fluent in French and German and joined Zytronic in 1993 as Sales Executive. She was appointed Sales Manager in 1996 to develop the European market for Zytronic. She had previously spent 10 years in export sales, initially with Armstrong World Industries Limited, and subsequently with Harrison Group Ltd where she was Sales Office Manager.

William Moodie (age 53) joined Zytronic in 1980 as Sales Manager with responsibility for all aspects of the sales operation and was appointed to the board of that company in 1989. He has 37 years experience in the glass and glass related industries. Prior to joining Romag Group, he was engaged by International Research and Development Limited from 1974 to 1977 as part of a team developing lightweight photovoltaic cells.

Ken Oakley ACMA (age 47) joined Romag Holdings plc as Management Accountant in May 1993. Prior to this he was employed from 1975 to 1993 by Cookson Group plc in a variety of accounting positions rising to Financial Controller of the Development Division.

Employees

In addition to the above Zytronic has 60 full time employees involved in manufacturing, sales, technical development, accounts and administration.

Restrictions on Share Disposals

On 7 June 2000 John Kennair, Peter Jones and Schroder Trust AG undertook to Brewin Dolphin Securities and the Company in respect of 6,807,005 Ordinary Shares (being their entire interests in the Ordinary Shares) representing approximately 48.2 per cent of the issued Ordinary Share capital (on the basis of the Maximum Subscription) following Admission, not to dispose of such interests (subject to certain limited exceptions) until one year from Admission.

Dividends and Dividend Policy

The first dividend after the Placing and Offer is expected to be the final dividend for the year ending 30 September 2000 payable in January 2001. The Directors intend in future years to pay an interim dividend in June and a final dividend in January in the proportions of approximately one third and two thirds respectively.

The Directors intend to adopt the policy of increasing dividends having regard to an appropriate level of dividend cover, underlying earnings growth and working capital requirements.

Corporate Governance

The Directors intend that the Company will comply with the Principles of Good Governance and Code of Best Practice prepared by the Committee on Corporate Governance and published in June 1998 so far as is appropriate having regard to the size of the Company.

The Company will hold Board Meetings regularly throughout the year at which financial and other reports are considered.

An Audit Committee has been established comprising the Chairman and two Non-Executive Directors of the Company. A quorum is at least two members. It will meet at least once a year and normally twice a year and is responsible, *inter alia*, for ensuring that the financial performance of the Company is properly reported on and monitored, for meeting the auditors and for reviewing the reports from the auditors relating to the accounts and internal control systems.

A Remuneration Committee has also been established comprising the Chairman and two Non-Executive Directors. The Committee will meet as and when necessary, but at least annually, to consider proposals for the salaries of the Executive Directors. It reviews, *inter alia*, the performance of the Executive Directors. It is a rule of the Remuneration Committee that no Director shall participate in discussions or decisions concerning his own remuneration. The Remuneration Committee will also determine the allocation of share options to participants in the Company's share option schemes.

The Company has adopted the Model Code for AIM companies.

Placing and Offer

5,127,273 New Ordinary Shares are being conditionally placed with, principally, institutional investors at the Issue Price by Brewin Dolphin Securities under the Placing. In addition, up to 909,090 New Ordinary Shares are being offered at the Issue Price under the Offer. Priority will be given to valid applications under the Offer from Qualifying Shareholders using Priority Application Forms for an aggregate of 227,272 New Ordinary Shares. If the Offer is oversubscribed, the Directors reserve the right to scale down, accept or reject in whole or in part any Application or Priority Application except that, should valid Priority Applications made by Qualifying Shareholders on Priority Application Forms exceed in aggregate 227,272 New Ordinary Shares, such applicants will receive, in aggregate, a minimum of 227,272 New Ordinary Shares. The issue of the New Ordinary Shares pursuant to the Placing and Offer is conditional on:

- (i) the Placing and Offer Agreement becoming unconditional and not being terminated; and
- (ii) the London Stock Exchange admitting the existing Ordinary Shares, the Placing Shares and those Offer Shares for which applications are accepted to AIM and such admission becoming effective.

Applicants must lodge the Application Form or Priority Application Form, together with their remittance for the full amount payable upon application, with Computershare Services PLC prior to 3.00 p.m. on 3 July 2000 (unless the Offer is closed earlier or extended by Brewin Dolphin Securities and the Directors). Applicants should note that the Directors may close the Offer immediately after it is fully subscribed should this be prior to 3 July 2000. The Company reserves the right to accept Application Forms or Priority Application Forms and accompanying remittances which are received through the post or by hand before 3.00 p.m. on 3 July 2000. The Company also reserves the right to accept applications received after 3.00 p.m. on 3 July 2000 where there was evidence that they were posted prior to that time.

The Terms and Conditions of Application and details of How to Complete the Application Form and Priority Application Form are set out in Part V of this document.

All payments must be made by cheque or bankers' draft in pounds sterling drawn on a bank or building society in the UK which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS and Town Clearing Company Limited or a member of the Scottish or Belfast clearing houses, or which has arranged for its cheques and bankers' drafts to be cleared through the facilities provided by those companies or committees. All such cheques or bankers' drafts must bear the appropriate sort code in the top right hand corner.

Cheques or banker's drafts should be made payable to "The Royal Bank of Scotland plc A/C Zytronic" and crossed "not negotiable — A/c payee only". It is a term of the Offer that all cheques, which are liable to be presented on receipt, will be honoured on first presentation. The Company reserves the right to seek special clearance of cheques. No interest will be paid on amounts received except as required by law. The Company intends to bank all cheques and banker's drafts received with Application Forms and Priority Application Forms and allotments will only be made after their clearance. Application monies will be held in a separate account by the Receiving Agents pending allotment or return if the application is unsuccessful. Application monies will be returned in whole or in part without interest to unsuccessful applicants by first class post, at the applicant's risk, as soon as possible after the final closing date of the Offer.

Risk Factors

The Directors consider the following risk factors to be the most significant to potential investors:

- The departure from the Group of any of the executive Directors or certain senior employees could, in the short term, materially adversely affect the Group. While the Company or Zytronic has entered into service agreements or contracts for services with each of the executive Directors and contracts of employment with certain senior employees, the retention of their services cannot be guaranteed.
- New technology, changing commercial circumstances and new entrants to the markets in which the Group operates may impinge on its business.
- Zytronic has access to a touchscreen development, the patents of which are owned by the Company's touchscreen consultant. The success of this development would be a significant step in the growth of Zytronic but the commercialisation of the project cannot be guaranteed. There is no certainty that the Group will be able to develop the touchscreen technology successfully or in the timeframe envisaged. The finished products may not achieve market acceptance or the level of sales envisaged by the Directors. There is no certainty that Zytronic can meaningfully protect its right to proprietary technology, or that others will not exploit or develop the same or substantially equivalent or superior technology.
- Zytronic's sales in the financial year to 30 September 1999 were £3.9 million of which 50 per cent were to one long standing customer. The Company has an excellent relationship with this customer to whom Zytronic is the sole supplier of glass products for information displays and there is no reason to believe that there will be a change in policy regarding the sourcing of future requirements.

- Potential investors should be aware that the value of shares can rise or fall and that investment in a share which is traded on AIM is likely to be less realisable and to carry a higher risk than investment in a share listed on the Official List. Investors may realise less than their original investment.
- **An investment in the Company may not be suitable for all recipients of this document. Potential investors are accordingly advised to consult a person authorised under the Financial Services Act 1986 who specialises in advising in investments of this kind before making any investment decisions.**

PART III

ACCOUNTANTS' REPORTS ON ZYTRONIC AND THE COMPANY

The following is a copy of the report on Zytronic by Ernst & Young to the Directors and the directors of Brewin Dolphin Securities:



Norham House
12 New Bridge Street West
Newcastle upon Tyne
NE1 8AD

The Directors,
Zytronic plc
Patterson Street
Blaydon on Tyne
Tyne & Wear
NE21 5SG

The Directors,
Brewin Dolphin Securities Limited
48 St Vincent Street
Glasgow
G2 5TS

8 June 2000

Dear Sirs

1. INTRODUCTION

We report in connection with the placing and offer for subscription ("the Issue") of up to 6,036,363 ordinary shares of 1p each in Zytronic plc ("the Company") referred to in the prospectus dated 8 June 2000, on the financial information set out below. On 7 June 2000 the Company acquired Zytronic Displays Limited ("Zytronic").

BASIS OF PREPARATION

The financial information set out on pages 16 to 31 is based on the audited financial statements of Zytronic, the Company's only trading subsidiary for the 18 months ended 30 September 1997, the year ended 30 September 1998 and the year ended 30 September 1999, and has been prepared on the basis set out on page 19, to which no adjustments were considered necessary.

RESPONSIBILITY

Such financial statements are the responsibility of the directors of Zytronic who approved their issue.

The directors of the Company are responsible for the contents of the prospectus dated 8 June 2000 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

BASIS OF OPINION

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

OPINION

In our opinion, the financial information gives, for the purposes of the prospectus dated 8 June 2000, a true and fair view of the state of affairs of Zytronic as at the dates stated and of its profits, cash flows and recognised gains and losses for the periods then ended.

CONSENT

We consent to the inclusion in the prospectus dated 8 June 2000 of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

2. PROFIT AND LOSS ACCOUNTS

		18 months ended 30 September 1997 £000	Year ended 30 September 1998 £000	Year ended 30 September 1999 £000
Turnover				
Continuing operations		4,657	3,326	3,878
Discontinued operations		4,114	1,964	3,102
		<hr/>	<hr/>	<hr/>
Cost of sales	2 3	8,771 6,015	5,290 3,860	6,980 4,973
		<hr/>	<hr/>	<hr/>
Gross profit		2,756	1,430	2,007
		<hr/>	<hr/>	<hr/>
Distribution costs	3	224	122	139
Administrative expenses	3	1,422	974	993
Management charges	3	180	120	180
		<hr/>	<hr/>	<hr/>
Operating profit				
Continuing operations		455	406	524
Discontinued operations		475	(192)	171
		<hr/>	<hr/>	<hr/>
Interest payable and similar charges	4 7	930 (104)	214 (42)	695 (62)
		<hr/>	<hr/>	<hr/>
Profit on ordinary activities before taxation		826	172	633
Tax on profit on ordinary activities	8	32	(32)	655
		<hr/>	<hr/>	<hr/>
Profit/(loss) on ordinary activities after taxation		794	204	(22)
Ordinary dividend on equity shares		500	500	869
		<hr/>	<hr/>	<hr/>
Retained profit/(loss) for the financial period	20	294	(296)	(891)
		<hr/>	<hr/>	<hr/>
Earnings per share	9	79.4p	20.4p	(2.2p)

There are no recognised gains or losses other than the profit/(loss) on ordinary activities after taxation for the relevant period.

3. RECONCILIATION OF SHAREHOLDERS' FUNDS

		18 months ended 30 September 1997 £000	Year ended 30 September 1998 £000	Year ended 30 September 1999 £000
Total recognised gains and losses		794	204	(22)
Dividends		(500)	(500)	(869)
		<hr/>	<hr/>	<hr/>
Total movements during the period		294	(296)	(891)
Shareholders' funds at 1 April/1 October		943	1,237	941
		<hr/>	<hr/>	<hr/>
Shareholders' funds at 30 September		1,237	941	50

4. BALANCE SHEETS

	Notes	At 30 September		At 30 September		At 30 September	
		1997	1998	1997	1998	1997	1998
		£000	£000	£000	£000	£000	£000
Fixed assets							
Intangible assets	10		370		438		357
Tangible assets	11		1,868		1,913		2,322
			<u>2,238</u>		<u>2,351</u>		<u>2,679</u>
Current assets							
Stocks	12	2,073		2,075		2,128	
Debtors:	13						
amounts falling due							
after one year		350		1,100		1,100	
amounts falling due							
within one year		2,515		1,559		2,962	
		<u>2,865</u>		<u>2,659</u>		<u>4,062</u>	
Cash at bank and in hand		1		1		—	
		<u>4,939</u>		<u>4,735</u>		<u>6,190</u>	
Creditors: amounts falling							
due within one year	14	(3,139)		(3,032)		(6,019)	
		<u>1,800</u>		<u>1,703</u>		<u>171</u>	
Net current assets							
			1,800		1,703		171
Total assets less current							
liabilities			4,038		4,054		2,850
Creditors: amounts falling							
due after more than one							
year	15		(2,801)		(3,113)		(2,800)
			<u>1,237</u>		<u>941</u>		<u>50</u>
Net assets							
			1,237		941		50
Capital and reserves							
Called up share capital	19		50		50		50
Profit and loss account	20		1,187		891		—
			<u>1,237</u>		<u>941</u>		<u>50</u>
Equity shareholders' funds							
			1,237		941		50

5. STATEMENT OF CASH FLOWS

		18 months ended 30 September 1997 £000	Year ended 30 September 1998 £000	Year ended 30 September 1999 £000
Net cash inflow/(outflow) from operating activities	21(a)	109	(196)	1,491
Returns on investments and servicing of finance				
Interest received		—	11	—
Interest paid		(5)	—	(14)
Interest element of finance lease rental payments		(99)	(53)	(48)
		<u>(104)</u>	<u>(42)</u>	<u>(62)</u>
Taxation				
Corporation tax paid (including advance corporation tax)		(25)	25	(655)
		<u>(25)</u>	<u>25</u>	<u>(655)</u>
Capital expenditure and financial investment				
Payments to acquire intangible fixed assets		(9)	(144)	—
Payments to acquire tangible fixed assets		(733)	(416)	(813)
Receipts from sales of tangible fixed assets		1	—	—
		<u>(741)</u>	<u>(560)</u>	<u>(813)</u>
Net cash outflow before financing		<u>(761)</u>	<u>(773)</u>	<u>(39)</u>
Financing				
New long-term loans	21(b)	—	—	29
Repayment of long-term loans	21(b)	(62)	(100)	—
Repayments of capital element of finance leases and hire purchase contracts	21(b)	353	(181)	202
		<u>291</u>	<u>(281)</u>	<u>231</u>
(Decrease)/increase in cash	21(b)	<u>(470)</u>	<u>(1,054)</u>	<u>192</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

		18 months ended 30 September 1997 £000	Year ended 30 September 1998 £000	Year ended 30 September 1999 £000
(Decrease)/increase in cash		(470)	(1,054)	192
Cash inflow from increase in loans		—	—	(29)
Repayment of long term loans		62	100	—
Net (increase)/repayments of capital element of finance leases and hire purchase contracts		(353)	181	(202)
		<u>(761)</u>	<u>(773)</u>	<u>(39)</u>
Movement in net debt	21(b)	<u>(761)</u>	<u>(773)</u>	<u>(39)</u>
Net debt at 1 April/1 October	21(b)	(2,886)	(3,647)	(4,420)
		<u>(2,886)</u>	<u>(3,647)</u>	<u>(4,420)</u>
Net debt at 30 September	21(b)	<u>(3,647)</u>	<u>(4,420)</u>	<u>(4,459)</u>

6. NOTES TO THE FINANCIAL INFORMATION

1. ACCOUNTING POLICIES

Accounting convention

The financial information has been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Basis of preparation

During the 18 months ended 30 September 1997 and the years ended 30 September 1998 and 1999, Zytronic was a wholly owned subsidiary of Romag Holdings Plc, itself a subsidiary of SHK Limited. On 7 June 2000, Zytronic became a wholly owned subsidiary of the Company, which is not part of the group comprising SHK Limited and its subsidiaries (collectively, "the SHK Group").

As a consequence of Zytronic having been a member of the SHK Group for all of the periods covered by this report, its audited accounts for those periods reflect the following:

- (a) Zytronic incurred management charges payable to Romag Holdings Plc, which will not recur in the future;
- (b) Zytronic incurred tax charges and liabilities different from those which would have arisen had Zytronic not been a member of the SHK Group; and
- (c) Zytronic had material amounts due to and from other members of the SHK Group at each period end. It is the intention of the directors of the Company that net amounts due from Zytronic to other members of the SHK Group will be settled from the proceeds of the Issue.

Depreciation

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

Plant and machinery — varying rates between 10% and 25%

Fixtures and fittings — 25%

Research and development

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can be foreseen with reasonable assurance. Any development expenditure carried forward is amortised over the expected lives of the products concerned.

Stocks

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

Raw materials, consumables and goods for resale — 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 any further costs expected to be incurred to completion and disposal.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences, to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is estimated that tax will be payable.

Licences

Licences capitalised at cost and amortised over the period of the licensing agreements.

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 group, 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 element of the rental obligations is charged to the profit and loss account over the periods of the leases and hire purchase contracts and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to the profit and loss account as incurred.

Pensions

Zytronic is a member of the personal pension scheme arrangements in place for SHK Limited, its former ultimate holding company, and subsidiaries of SHK Limited. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

2. TURNOVER AND SEGMENTAL ANALYSIS

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

Zytronic operated in two principal areas of activity, the manufacture and sale of security glass for applications in both touch screen technology and transport. The activities of the transport division were transferred to Romag Limited, a company within the SHK Group, effective from 1 October 1999 and have been disclosed as discontinued operations in the 18 months ended 30 September 1997 and the years ended 30 September 1998 and 1999.

An analysis of turnover by geographical market is set out in the table below:

	18 months ended 30 September 1997	Year ended 30 September 1998	Year ended 30 September 1999
	£000	£000	£000
United Kingdom	6,338	3,686	4,604
Western Europe	2,098	982	1,547
United States of America	242	216	418
Rest of the world	93	406	411
	<u>8,771</u>	<u>5,290</u>	<u>6,980</u>

3. COST OF SALES AND OPERATING EXPENSES

	18 months ended 30 September 1997			Year ended 30 September 1998			Year ended 30 September 1999		
	Continu- ing £000	Discon- tinued £000	Total £000	Continu- ing £000	Discon- tinued £000	Total £000	Continu- ing £000	Discon- tinued £000	Total £000
Cost of sales	3,002	3,013	6,015	2,094	1,766	3,860	2,485	2,488	4,973
Distribution costs	67	157	224	37	85	122	42	97	139
Administrative expenses	1,133	289	1,422	789	185	974	827	166	993
Management charges	—	180	180	—	120	120	—	180	180
	<u>4,202</u>	<u>3,639</u>	<u>7,841</u>	<u>2,920</u>	<u>2,156</u>	<u>5,076</u>	<u>2,554</u>	<u>2,861</u>	<u>5,415</u>

4. OPERATING PROFIT

This is stated after charging/(crediting):

	18 months ended 30 September 1997 £000	Year ended 30 September 1998 £000	Year ended 30 September 1999 £000
Auditors' remuneration in respect of audit services	16	20	12
Amortisation of deferred development expenditure and licences	91	76	81
Depreciation of owned assets	444	267	279
Depreciation of assets held under finance leases and hire purchase contracts	138	104	125
Operating lease rentals — land and buildings	129	181	196
— plant and machinery	50	38	47
Hire of plant and machinery	49	35	49
Exchange rate differences	(72)	8	23
Management charges payable to Romag Holdings Plc	180	120	180
	<u>180</u>	<u>120</u>	<u>180</u>

5. DIRECTORS' EMOLUMENTS

	18 months ended 30 September 1997	Year ended 30 September 1998	Year ended 30 September 1999
Basic salary and fees	195	136	139
Company contributions paid to group personal pension scheme	2	2	2
	<u>197</u>	<u>138</u>	<u>141</u>

6. STAFF COSTS

	18 months ended 30 September 1997 £000	Year ended 30 September 1998 £000	Year ended 30 September 1999 £000
Wages and salaries	2,432	1,320	1,356
Social security costs	192	114	114
Other pension costs (note 23)	15	11	10
	<u>2,639</u>	<u>1,445</u>	<u>1,480</u>

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

	18 months ended 30 September 1997 No.	Year ended 30 September 1998 No.	Year ended 30 September 1999 No.
Manufacturing	118	89	87
Office and management	25	25	23
	<u>143</u>	<u>114</u>	<u>110</u>

7. INTEREST PAYABLE AND SIMILAR CHARGES

	18 months ended 30 September 1997 £000	Year ended 30 September 1998 £000	Year ended 30 September 1999 £000
Interest due from former fellow subsidiary undertaking	—	(11)	—
Interest on trade bills	6	—	9
Finance charges payable under finance leases and hire purchase contracts	98	53	49
Other loans	—	—	4
	<u>104</u>	<u>42</u>	<u>62</u>

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

The taxation charge/(credit) is made up as follows:

	18 months ended 30 September 1997 £000	Year ended 30 September 1998 £000	Year ended 30 September 1999 £000
Corporation tax at 30% (1998 — 31%; 1997 — 32%)	32	(32)	—
Payment to former parent company for group relief of losses	—	—	655
	<u>32</u>	<u>(32)</u>	<u>655</u>

9. EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share is based on earnings of (£22,000) (1998 — £204,000; 1997 — £794,000) and on 1,000,000 (1998 - 1,000,000; 1997 - 1,000,000) ordinary shares, being the weighted average number of ordinary shares in issue during these periods.

10. INTANGIBLE FIXED ASSETS

	Licences £000	Development expenditure £000	Total £000
<i>Cost:</i>			
At 1 April 1996	29	694	723
Increase during the period	—	9	9
At 1 October 1997	29	703	732
Increase during the year	144	—	144
At 1 October 1998 and 30 September 1999	173	703	876
<i>Amortisation:</i>			
At 1 April 1996	15	256	271
Provided during the period	2	89	91
At 1 October 1997	17	345	362
Provided during the year	19	57	76
At 1 October 1998	36	402	438
Provided during the year	23	58	81
At 30 September 1999	59	460	519
Net book value at 30 September 1999	114	243	357
Net book value at 1 October 1998	137	301	438
Net book value at 1 October 1997	12	358	370
Net book value at 1 April 1996	14	438	452

11. TANGIBLE FIXED ASSETS

	Fixtures and fittings £000	Plant and machinery £000	Total £000
<i>Cost or valuation:</i>			
At 1 April 1996	95	3,580	3,675
Additions	5	728	733
Disposals	(1)	—	(1)
At 1 October 1997	99	4,308	4,407
Additions	6	410	416
At 1 October 1998	105	4,718	4,823
Additions	35	778	813
At 30 September 1999	140	5,496	5,636
<i>Depreciation:</i>			
At 1 April 1996	92	1,865	1,957
Provided during the period	3	579	582
At 1 October 1997	95	2,444	2,539
Provided during the year	3	368	371
At 1 October 1998	98	2,812	2,910
Provided during the year	3	401	404
At 30 September 1999	101	3,213	3,314
Net book value at 30 September 1999	39	2,283	2,322
Net book value at 1 October 1998	7	1,906	1,913
Net book value at 1 October 1997	4	1,864	1,868
Net book value at 1 April 1996	3	1,715	1,718

11. TANGIBLE FIXED ASSETS (continued)

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

	£000
<i>Cost:</i>	
At 1 April 1996	115
Additions	800
	<hr/>
At 1 October 1997	915
Additions	126
	<hr/>
At 1 October 1998	1,041
Additions	518
	<hr/>
At 30 September 1999	1,559
	<hr/>
<i>Depreciation:</i>	
At 1 April 1996	18
Depreciation provided during the period	138
On refinanced assets	23
	<hr/>
At 1 October 1997	179
Depreciation provided during the year	104
	<hr/>
At 1 October 1998	283
Depreciation provided during the year	125
	<hr/>
At 30 September 1999	408
	<hr/>
<i>Net book value:</i>	
At 30 September 1999	1,151
	<hr/>
At 1 October 1998	758
	<hr/>
At 1 October 1997	736
	<hr/>
At 1 April 1996	97
	<hr/>

12. STOCKS

	At 30 September 1997 £000	At 30 September 1998 £000	At 30 September 1999 £000
Raw materials and consumables	262	240	257
Work in progress	528	549	678
Finished goods and goods for resale	1,283	1,286	1,193
	<hr/>	<hr/>	<hr/>
	2,073	2,075	2,128
	<hr/>	<hr/>	<hr/>

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

13. DEBTORS

	At 30 September 1997 £000	At 30 September 1998 £000	At 30 September 1999 £000
Trade debtors	1,264	1,272	1,526
Amounts owed by former parent and former fellow subsidiary undertakings	1,530	1,294	2,471
Other debtors	9	14	2
Prepayments and accrued income	62	79	63
	<u>2,865</u>	<u>2,659</u>	<u>4,062</u>

Included within amounts owed by former parent and former fellow subsidiary undertakings at 30 September 1999 is £1,100,000 which is receivable after more than one year (30 September 1998 — £1,100,000; 30 September 1997 — £350,000).

14. CREDITORS: amounts falling due within one year

	At 30 September 1997 £000	At 30 September 1998 £000	At 30 September 1999 £000
Bank overdraft	570	1,624	1,431
Current instalments due on loans	—	—	9
Obligations under finance leases and hire purchase contracts (note 17)	277	184	219
Trade creditors	523	508	824
Trade bills	221	47	160
Corporation tax	7	—	—
Other taxes and social security costs	254	86	92
Other creditors and accruals	82	81	88
Proposed dividend	500	500	1,869
Other amounts owed to former parent and former fellow subsidiary undertakings	705	2	1,327
	<u>3,139</u>	<u>3,032</u>	<u>6,019</u>

The bank overdraft was secured by a cross guarantee and debenture between SHK Limited, Romag Holdings Plc, Zytronic and Romag Limited together with a fixed charge over the freehold and leasehold property, plant and machinery and book debts, and a floating charge over the other assets of Zytronic.

15. CREDITORS: amounts falling due after more than one year

	At 30 September 1997 £000	At 30 September 1998 £000	At 30 September 1999 £000
Obligations under finance leases and hire purchase contracts (note 17)	201	113	280
Amounts owed to former parent undertaking	2,600	2,500	2,500
Dividend payable to former parent undertaking	—	500	—
Other loans (note 16)	—	—	20
	<u>2,801</u>	<u>3,113</u>	<u>2,800</u>

16. OTHER LOANS

	At 30 September 1997 £000	At 30 September 1998 £000	At 30 September 1999 £000
Amounts falling due:			
In one year or less or on demand	—	—	9
Between one and two years	—	—	10
Between two and five years	—	—	10
	<u>—</u>	<u>—</u>	<u>29</u>

17. OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS

Amounts due under finance leases and hire purchase contracts:

	At 30 September 1997 £000	At 30 September 1998 £000	At 30 September 1999 £000
Amounts payable:			
Within one year	316	215	258
In two to five years	222	138	323
	<u>538</u>	<u>353</u>	<u>581</u>
Less: finance charges allocated to future periods	60	56	82
	<u>478</u>	<u>297</u>	<u>499</u>
Due within one year	277	184	219
Due after more than one year	201	113	280
	<u>478</u>	<u>297</u>	<u>499</u>

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

	At 30 September 1997 £000	Land and buildings At 30 September 1998 £000	At 30 September 1999 £000	At 30 September 1997 £000	At 30 September 1998 £000	Other At 30 September 1999 £000
Operating leases which expire:						
Within one year	—	—	—	—	1	3
In two to five years	—	—	—	4	28	25
In over five years	186	186	224	20	—	—
	<u>186</u>	<u>186</u>	<u>224</u>	<u>24</u>	<u>29</u>	<u>28</u>

18. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation at 30% (1998 — 31%: 1997 — 32%) provided in the accounts and the amounts not provided are as follows:

	At 30 September 1997 £000	At 30 September 1998 £000	Provided At 30 September 1999 £000	At 30 September 1997 £000	At 30 September 1998 £000	Not provided At 30 September 1999 £000
Capital allowances in advance of depreciation	15	—	1	247	135	137
Other timing differences	(15)	—	(1)	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>247</u>	<u>135</u>	<u>137</u>

19. SHARE CAPITAL

	At 30 September 1997 £000	At 30 September 1998 £000	At 30 September 1999 £000
<i>Authorised</i>			
Ordinary shares of 5p each	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>

	At 30 September 1997 £000	At 30 September 1998 £000	At 30 September 1999 £000
<i>Allotted, called up and fully paid</i>			
Ordinary shares of 5p each	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>

20. RECONCILIATION OF MOVEMENTS ON RESERVES AND SHAREHOLDERS' FUNDS

	Called up share capital £000	Profit and loss account £000	Total £000
At 1 April 1996	50	893	943
Profit on ordinary activities after taxation	—	794	794
Dividends	—	(500)	(500)
	<u>50</u>	<u>1,187</u>	<u>1,237</u>
At 1 October 1997	50	1,187	1,237
Profit on ordinary activities after taxation	—	204	204
Dividends	—	(500)	(500)
	<u>50</u>	<u>891</u>	<u>941</u>
At 1 October 1998	50	891	941
Loss on ordinary activities after taxation	—	(22)	(22)
Dividends	—	(869)	(869)
	<u>50</u>	<u>—</u>	<u>50</u>
At 30 September 1999	50	—	50

21. NOTES TO THE STATEMENT OF CASH FLOWS

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

	18 months ended 30 September 1997 £000	Year ended 30 September 1998 £000	Year ended 30 September 1999 £000
Operating profit	930	214	695
Depreciation	582	371	404
Amortisation of deferred development expenditure and licences	91	76	81
(Increase)/decrease in debtors	(1,709)	206	(1,403)
Increase in stocks	(153)	(2)	(53)
Increase/(decrease) in creditors	368	(1,061)	1,767
Net cash inflow/(outflow) from operating activities	109	(196)	1,491

(b) Analysis of net debt:

	At 1 April 1996 £000	Cash flow £000	At 30 September 1997 £000
Cash at bank and in hand	1	—	1
Bank overdrafts	(100)	(470)	(570)
Overdraft	(99)	(470)	(569)
External loans	(62)	62	—
Finance leases	(125)	(353)	(478)
Loans from former parent undertaking	(2,600)	—	(2,600)
	(2,886)	(761)	(3,647)

	At 1 October 1997 £000	Cash flow £000	At 30 September 1998 £000
Cash at bank and in hand	1	—	1
Bank overdrafts	(570)	(1,054)	(1,624)
Overdraft	(569)	(1,054)	(1,623)
Finance leases	(478)	181	(297)
Loans from former parent undertaking	(2,600)	100	(2,500)
	(3,647)	(773)	(4,420)

	At 1 October 1998 £000	Cash flow £000	At 30 September 1999 £000
Cash at bank and in hand	1	—	1
Bank overdrafts	(1,624)	192	(1,432)
Overdraft	(1,623)	192	(1,431)
External loans	—	(29)	(29)
Finance leases	(297)	(202)	(499)
Loans from former parent undertaking	(2,500)	—	(2,500)
	(4,420)	(39)	(4,459)

22. POST BALANCE SHEET EVENTS

On 26 April 2000 but effective from 1 October 1999, Zytronic transferred the assets and trade of its transport business at book values to its then sister subsidiary, Romag Limited, for a consideration of £2.125 million.

On 26 April 2000, Romag Holdings Plc transferred the rights to use certain technology to Zytronic (then a wholly owned subsidiary of Romag Holdings Plc) for a consideration of £1.9 million.

23. PENSION SCHEME COMMITMENTS

During the period 1 April 1996 to 30 September 1999, Zytronic's employees were members of the Romag Group personal pension scheme. Contributions for the year to 30 September 1999 amounted to £10,000 (1998 — £11,000, 1997 — £15,000) and the outstanding contributions at the balance sheet date were £7,000 (1998 — £1,000, 1997 — £37,000).

24. CONTINGENT LIABILITIES

During the period 1 April 1996 to 30 September 1999, Zytronic, together with its then parent undertakings and fellow subsidiary undertakings, had jointly and severally guaranteed the bank loans and overdrafts of the SHK Group. Zytronic was released from this guarantee on 5 June 2000.

25. OTHER RELATED PARTY TRANSACTIONS

Until 26 April 2000, Zytronic was a wholly owned subsidiary of Romag Holdings Plc and its ultimate parent company was SHK Limited. In the normal course of business, sales and purchases from subsidiaries of Romag Holdings Plc, Romag Limited and Romag Inc., were made in the 18 months ended 30 September 1997 and in the years ended 30 September 1998 and 1999. Details of the value of these transactions and the intercompany balances at the period ends are set out below:

	18 months ended 30 September 1997 £000	Year ended 30 September 1998 £000	Year ended 30 September 1999 £000
<i>Intercompany sales</i>			
Romag Limited	167	241	557
Romag Inc.	82	23	—
	<hr/>	<hr/>	<hr/>
	249	264	557
<i>Intercompany purchases</i>			
Romag Limited	178	197	901
Romag Inc.	20	—	—
	<hr/>	<hr/>	<hr/>
	198	197	901
<i>Management charges</i>			
Payable to Romag Holdings Plc	180	120	180
	<hr/>	<hr/>	<hr/>

25. OTHER RELATED PARTY TRANSACTIONS (continued)

	At 30 September 1997 £000	At 30 September 1998 £000	At 30 September 1999 £000
<i>Intercompany receivable balances</i>			
Romag Holdings Plc	—	10	20
Romag Limited (net balances due within one year)	634	70	1,351
Romag Limited (net balances due after more than one year)	350	1,100	1,100
Romag Inc.	118	112	112
	<u>1,102</u>	<u>1,292</u>	<u>2,583</u>
<i>Intercompany payable balances</i>			
Romag Holdings Plc	277	—	1,439
Romag Holdings Plc (dividends payable)	500	1,000	1,869
Romag Holdings Plc (amounts due after more than one year)	2,600	2,500	2,500
	<u>3,377</u>	<u>3,500</u>	<u>5,808</u>

During the 18 months ended 30 September 1997, fixed assets were transferred from Romag Limited to Zytronic at net book value. These assets had an original cost of £150,000, accumulated depreciation of £8,000 and a net book value of £142,000.

Yours faithfully

Ernst & Young

The following is a copy of the report on the Company by Ernst & Young to the Directors and the directors of Brewin Dolphin Securities:



Norham House
12 New Bridge Street West
Newcastle upon Tyne
NE1 8AD

The Directors,
Zytronic plc
Patterson Street
Blaydon on Tyne
Tyne & Wear
NE21 5SG

The Directors,
Brewin Dolphin Securities Limited
48 St Vincent Street
Glasgow
G2 5TS

8 June 2000

Dear Sirs

1. INTRODUCTION

We report upon the financial information set out below. This financial information has been prepared for inclusion in the prospectus dated 8 June 2000 of Zytronic plc ("the Company").

BASIS OF PREPARATION

The financial information set out in paragraphs 2 to 3 is based on the audited financial statements of the Company for the period ended 27 April 2000, to which no adjustments were considered necessary.

The Company was incorporated on 22 November 1999 and the audited financial statements of the Company for the period ended 27 April 2000 were prepared for the purposes of the prospectus.

RESPONSIBILITY

Such financial statements are the responsibility of the directors of the Company who approved their issue.

The directors of the Company are responsible for the contents of the prospectus dated 8 June 2000 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

BASIS OF OPINION

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

OPINION

In our opinion, the financial information gives, for the purposes of the prospectus dated 8 June 2000, a true and fair view of the state of affairs of the Company as at 27 April 2000.

CONSENT

We consent to the inclusion in the prospectus dated 8 June 2000 of this report and accept responsibility for this report for the purposes of paragraph 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

2. BALANCE SHEET

	Note	At 27 April 2000 £
<i>Investments</i>	(ii)	65,664
		<hr/>
		65,664
<i>Capital and reserves</i>		
Called up share capital	(iii)	65,664
		<hr/>
Equity shareholders' funds		65,664
		<hr/>

3. NOTES TO THE FINANCIAL INFORMATION

1. ACCOUNTING POLICIES

Basis of preparation

The financial information has been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Investments

Investments are stated at cost less any provision for diminution in value.

2. INVESTMENTS

	Subsidiary undertaking £	Total £
At 22 November 1999	—	—
Additions	65,664	65,664
	<hr/>	<hr/>
At 27 April 2000	65,664	65,664
	<hr/>	<hr/>

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

Name of company	Country of registration or incorporation	Holding	Proportion of voting rights and share held	Nature of business
<i>Subsidiary undertaking:</i>				
<i>Held by the Company:</i>				
Romag Glass Products Holdings Limited	England and Wales	Ordinary shares	80.65%	Holding company
<i>Held by Romag Glass Products Holdings Limited</i>				
Zytronic Displays Limited (formerly Romag Glass Products Limited)	England and Wales	Ordinary shares	100.00%	Security glass and related products

On 27 April 2000 the Company acquired 6,566,445 ordinary shares of 1 pence in Romag Glass Products Holdings Limited ("RGPH") being 80.65% of that company's issued share capital.

Net assets acquired:

	Book value and fair value to Company £
Investment	65,664
	<hr/>
Discharged by:	
Fair value of shares issued	65,664
	<hr/>

3. SHARE CAPITAL

Authorised

	At 27 April 2000 £
Ordinary shares of 1 pence each	81,416

Allotted, called up and fully paid

	27 April 2000 No	27 April 2000 £
Ordinary shares of 1 pence each	6,566,445	65,664

The Company was registered with an authorised ordinary share capital of £100, divided into 100 shares of £1 each.

On incorporation on 22 November 1999, one ordinary share was issued at £1, fully paid.

On 27 March 2000, Romag Holdings Plc distributed the entire issued share capital of its then wholly owned subsidiary, Zytronic Displays Limited, to RGPH, on the directions of Romag Holdings Plc's shareholders and 8,141,540 ordinary shares of 1 pence each in RGPH, including the subscriber's share converted into 100 shares of 1 pence each, were issued to the shareholders of Romag Holdings Plc in exchange.

On 27 April 2000, each of the ordinary shares of £1 in the Company, both issued and unissued, were subdivided into 100 shares of 1 pence each and the authorised ordinary share capital of the Company was increased from £100 to £81,416 by the creation of 8,131,600 ordinary shares of 1 pence each. On the same date, the Company issued 6,566,345 ordinary shares of 1 pence each in exchange for 6,566,345 ordinary shares of 1 pence each of RGPH.

4. POST BALANCE SHEET EVENT

On 28 April 2000, the Company made an offer for the remaining 1,575,095 issued ordinary shares of 1 pence of RGPH that it did not already own, of one 1 pence ordinary share in the Company for each 1 pence ordinary share in RGPH. The Company was successful in obtaining acceptances taking its share of RGPH's ordinary shares to in excess of 90% and proposes to apply to the High Court in order to acquire the remaining shares in RGPH.

On 7 June 2000, RGPH transferred the entire share capital of Zytronic Displays Limited to the Company at market value.

Apart from these transactions and the issue of shares described in note (iii), the Company has not entered into any other transactions since incorporation.

Yours faithfully

Ernst & Young

PART IV

ADDITIONAL INFORMATION

1. INCORPORATION

- (a) The Company was incorporated on 22 November 1999 in England and Wales under the Act as a private company limited by shares with registered number 3881244. On 1 March 2000, the Company changed its name from Sandco 651 Limited to Vertronic Limited. On 6 March 2000 the Company changed its name to Zytronic Limited.
- (b) On 6 June 2000 all the members of the Company resolved by resolution in writing pursuant to Section 43 of the Act to re-register the Company as a public company limited by shares.
- (c) The Company's main activity is that of a holding company for the following companies:
- (i) Zytronic;
 - (ii) Romag Glass Products Holdings Limited ("RGPH"), a non-trading company which was, for the purpose of the Demerger, formerly the holding company of Zytronic.

At the date of this document the Company beneficially owns 99% of the issued share capital of RGPH and 100% of the issued share capital of Zytronic. Following the Demerger the relevant share transfers will not be entered in the statutory books of RGPH and Zytronic until after the adjudication of stamp duty and such transfers being duly stamped or adjudicated as not chargeable to stamp duty.

- (d) The principal legislation under which the Company operates is the Act and the regulations made thereunder.
- (e) The Company's registered office and principal place of business is Patterson Street, Blaydon on Tyne, NE21 5SG.
- (f) The liability of the members of the Company is limited.

2. SHARE CAPITAL

- (a) The authorised and issued share capital of the Company at the date of this document is as follows:

Authorised		Issued and fully paid	
£	Number	£	Number
250,000	25,000,000	80,842	8,084,195

and will, following the Placing and Offer (assuming that the Placing and Offer are fully subscribed) be

Authorised		Issued and fully paid	
£	Number	£	Number
250,000	25,000,000	141,206	14,120,558

- (b) The Company was incorporated with an authorised share capital of £100 divided into 100 shares of £1 each of which one was issued.
- (c) The following is a summary of the changes in the authorised and issued share capital of the Company since its incorporation:
- (i) on 27 April 2000 each ordinary share of £1 was divided into 100 Ordinary Shares of 1 pence each;
 - (ii) on 27 April 2000 the authorised share capital of the Company was increased to £81,416 by the creation of an additional 8,131,600 Ordinary Shares of 1 pence each;
 - (iii) on 6 June 2000 the authorised share capital of the Company was increased to £250,000 by the creation of an additional 16,858,400 Ordinary Shares of 1 pence each.
- (d) On 28 April 2000 the Company as part of the Demerger, made a recommended offer to the shareholders of RGPH to purchase the remainder of the issued share capital of RGPH, comprising 1,575,095 shares of 1p each, not already owned by the Company in exchange for new shares in the Company on a 1 for 1 basis. The recommended offer became unconditional in all respects on 24 May 2000 and was extended for acceptance to 14 July 2000. As at the date of this document, 95% of shareholders of RGPH have accepted the recommended offer and the Company has allotted 1,517,750 Ordinary Shares to former shareholders of RGPH. The Company has authority under Section 80 of the Companies Act 1985 to allot a further 57,345 Ordinary Shares to former shareholders of RGPH under the terms of the recommended offer.

- (e) On 7 June 2000 all the members of the Company resolved by special resolution at an extraordinary general meeting that:
- (1) The Directors were generally and unconditionally authorised in accordance with Section 80 of the Act to exercise all the powers of the Company to allot the New Ordinary Shares and in addition relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal value equal to £17,205.58 such authority to (unless and to the extent previously revoked, varied or renewed by the Company in general meeting) expire at the conclusion of the Company's annual general meeting for 2001 provided that such authority shall allow the Company to 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 in pursuance of any such offer or agreement as if the authority conferred by the Resolution had not expired.
 - (2) The Directors 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 in subparagraph (1) 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 annual general meeting for 2001. The power is limited to:
 - (i) the allotment of the New Ordinary Shares in connection with the Placing and Offer;
 - (ii) the allotment of equity securities for cash in connection with rights issues to holders of Ordinary Shares 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 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;
 - (iii) the allotment (other than pursuant to (i) and (ii) above) of equity securities up to a maximum aggregate nominal amount of £7,223.91.

The Company may, before the expiry of this power, make an offer or agreement which would or might require equity securities to be allotted after the expiry of this power and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power had not expired.

- (f) The provisions of Section 89(1) of the Act (which, to the extent not disapplied pursuant to Section 95 of the Act, confer on shareholders rights of pre-emption in respect of the allotment of securities which are, or are to be, paid up in cash other than by way of allotment to employees under any employee's share scheme as defined in Section 743 of the Act) apply to the authorised but unissued share capital of the Company to the extent not disapplied as described above. This disapplication will give the Directors limited flexibility to issue shares for cash following the Placing and Offer. Subject to certain limited exceptions, unless the approval of shareholders in general meeting is obtained, the Company must normally offer Ordinary Shares to be issued for cash to existing ordinary shareholders on a *pro rata* basis. No such issue is presently in contemplation.
- (g) The New Ordinary Shares will rank in full for all dividends or other distributions hereafter declared, paid or made on the ordinary share capital of the Company.
- (h) Save as disclosed in paragraph 8, no share capital of the Company is under option or has been agreed conditionally or unconditionally to be put under option.
- (i) Otherwise than pursuant to the Placing and Offer none of the Ordinary Shares have been sold or are available in whole or in part to the public in conjunction with the application for the Ordinary Shares to be admitted to AIM.
- (j) The amount payable on application and allotment of each New Ordinary Share is 110 pence of which 109 pence is payable by way of premium.

3. MEMORANDUM AND ARTICLES OF ASSOCIATION

The Memorandum of Association of the Company provides that the Company's principal object is to carry on business as a holding company. The objects of the Company, which were altered by resolution in writing of all the members of the Company passed on 6 June 2000, are set out in full in Clause 3 of the Memorandum of Association which is available for inspection at the address specified at paragraph 18 of this Part IV.

3.1 The Articles of Association of the Company (the "Articles") which were adopted pursuant to resolution in writing of all the members of the Company passed on 6 June 2000 contain provisions, *inter alia*, to the following effect:

3.1.1 Voting Rights

- (a) On a show of hands every member who is present in person shall have one vote and upon a poll every member present in person or by proxy shall have one vote for every share held by him.
- (b) No member shall, unless the Directors otherwise determine be entitled in respect of any share held by him to vote (either in person or by proxy) at any shareholder's meeting, or to exercise any other

right conferred by membership in relation to such meetings of the Company if any call or other sum presently payable by him to the Company in respect of that share or shares remaining unpaid until all amounts due are paid, together with all costs, charges and expenses incurred by the Company by reason of the non-payment.

- (c) Subject to the requirements of the London Stock Exchange, if any member or other person appearing to be interested in shares held by such member has been duly served with a notice under Section 212 of the Act (requiring disclosure of interests in shares) and is in default for the prescribed period in supplying to the Company the information required by such notice then (unless the Directors otherwise determine) the members shall not (for as long as the default continues), nor shall any transferee to whom any of such shares are transferred (other than pursuant to an approved transfer or pursuant to Article 71.4.3 of the Articles) be entitled to vote, either personally or by proxy, at a shareholders meeting or to exercise any other right conferred by membership in relation to such meetings. Where on the basis of information obtained from a member in respect of a share held by him, the Company issues a notice under Section 212 of the Act to another person, it shall at the same time send a copy of the notice to the member.

3.1.2 Variation of class rights and changes in capital

Whenever the capital is divided into different classes of shares, the special rights attached to any class of share may, subject to the provisions of the Act, be varied or abrogated (either whilst the Company is a going concern or during or in contemplation of a winding up) in such manner as may be provided by those rights or in the absence of provisions either with the consent in writing of the holders of three quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the issued shares of that class. At any such separate general meeting (other than an adjourned meeting) the necessary quorum is two persons holding or representing by proxy one third in nominal value of the issued shares of the class in question.

The Company may from time to time by ordinary resolution (save for (e) below):

- (a) consolidate and divide all or any of its share capital into shares of a larger amount;
- (b) sub-divide its share capital into shares of a smaller amount;
- (c) cancel any shares which have not been taken up or agreed to be taken up by any person and diminish its authorised capital by the amount of the shares so cancelled;
- (d) increased its authorised share capital by such sum to be divided into shares of such amount, as the resolution shall prescribe; and
- (e) with the sanction of a special resolution and subject to any confirmation or consent required by law, reduce its authorised and issued share capital or any capital redemption reserve fund or any share premium account or other undistributable reserve.

3.1.3 Dividends

Subject to any preferential or other special rights attached to any shares issued by the Company the profits of the Company available for dividend and which the Company shall so determine to distribute by way of dividend shall be apportioned and paid to the members entitled thereto proportionately to the amounts paid up on the shares.

The Directors may, in their absolute discretion, withhold the payment of any dividend or other moneys payable to a member in respect of any shares held by him over which the Company has a lien and may apply the same towards satisfaction of the moneys payable to the Company in respect of those shares. The Directors may also retain dividend payments until a person is entitled to transfer those shares and has transferred the same.

Any dividend unclaimed after a period of 12 years from the date for payment thereof shall be forfeited, shall cease to remain owing and shall revert to the Company.

3.1.4 Distribution of assets on winding-up

If the Company is wound-up, the liquidator may, with the authority of an extraordinary resolution and subject to the Act, divide among the members in specie or in kind the whole or any part of the assets of the Company and may determine how such division shall be carried out as between different classes of members (if any).

3.1.5 Transfer

A transfer of shares shall be effected by a transfer in writing in the usual common form or in any other form approved by the Directors. The transferor shall be deemed to remain the holder of the shares until the name of the transferee is entered in the Register of Members in respect thereof.

The Directors may, (subject to the restrictions on voting in particular circumstances contained in the Articles and the requirements of the London Stock Exchange) in their absolute discretion and without giving any reason refuse to register the transfer of a certificated share (or in the case of (iii) refuse to register the transfer of a certificated share or a renunciation of a reasonable letter of allotment):

- (i) which is not fully paid up; or
- (ii) in which the Company has a lien;
(if that share has been admitted to trading on AIM or to the Official List of the London Stock Exchange, the Directors may not refuse to register the transfer if this would prevent dealings in the share from taking place on an open and proper basis) or;
- (iii) unless it is in respect of only one class of share, in favour of a single transferee or renounee or not more than four joint transferees or renounees, is duly stamped and is delivered for registration to the transfer office or such other place as the Directors may decide accompanied by the certificate for the shares to which it relates and such other evidence as the Directors may reasonably require to prove the title of the transferor or person renouncing and the due execution by him the transfer or renunciation or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so.

If a member has been duly served with a notice under section 212 of the Act and is in default for the prescribed period in supplying the information required by such notice and the shares in relation to which the default has occurred constitute at least 0.25 per cent. of the issued shares of the class in question, the Directors may, by giving notice to the relevant member, direct that no transfer of any certificated relevant shares shall be registered unless the transfer is an approved transfer or the member himself is not in default as regards the supply of the information or the transfer is part only of the members holding and the Directors receive satisfactory evidence to this effect.

For the purposes of this Part IV "approved transfer" means a transfer to an offeror by way or in pursuance of acceptance of a takeover offer for the Company (within the meaning of section 428 (1) of the Act), or the Directors are satisfied that the transfer is made pursuant to a *bona fide* sale of the whole of the beneficial ownership of the shares to a party unconnected with the member or with any person appearing to be interested in such shares.

If any member is served with a notice under section 212 of the Act as is referred to paragraph 5.4.1(c) of this Part IV and the shares in respect of which the notice has been served represent at least 0.25 per cent. of the issued shares of the class of the question, the Board may by notice to the relevant member direct that the whole or any part of any dividend which would otherwise be payable in respect of the said shares shall be retained by the Company without any liability to pay interest when they are finally paid to the member.

Save as aforesaid, the Articles contain no restrictions as to the free transferability of fully paid shares.

3.1.6 Directors

- (a) No shareholding qualification is required of a Director.
- (b) The Directors may from time to time appoint any other person to be a Director either to fill a vacancy or as an additional Director. A Director so appointed shall hold office until the conclusion of business at the next Annual General Meeting following next after his appointment when he shall retire but shall then be eligible for re-election at that meeting.
- (c) The ordinary remuneration of the Directors for their services in that capacity shall be determined by the Directors but shall not exceed £250,000 per annum in aggregate or such higher amount as may from time to time be determined by ordinary resolution of the Company, such sum (unless provided otherwise by ordinary resolution) to be divided amount such Directors in such proportion as they may agree or, in default of agreement, equally, accrues daily. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses properly incurred by them respectively in and about the performance of their duties as Directors, including their expenses of travelling to and from meetings of the Directors of any committee thereof.
- (d) The Directors may grant such reasonable extra remuneration to any Director who holds any executive office or who serves on any committee of the Board or who performs services which in the Board's opinion are outside the scope of the Director's ordinary duties which may be payable in addition to or in substitution for his ordinary remuneration (if any) as a Director and may be payable by way of salary, commission or other means as the Directors shall determine.
- (e) The Directors may from time to time appoint one or more of their body to be the holder of any executive office on such terms and for such period as they may determine.

- (f) The Directors may confer upon a Director holding an executive office any of the powers exercisable by Directors upon such terms and conditions and with such restrictions as they think fit.
- (g) Any Director may be party to or interested in any contract or arrangement to which the Company is a party. He may also hold or be remunerated in respect of any office or position (other than auditor) under or in the Company or any other company in which the Company is in any way interested. He may also retain for his own absolute use and benefit all profits, benefits and advantages which he may derive as a result.
- (h) a Director may hold office as a director or other officer or be otherwise interested in any other company of which the Company is a member or in which the Company is otherwise interested and unless otherwise agreed shall not be liable to account to the Company for any remuneration or other benefits receivable by him as director or other officer or by virtue of his interest in such other company.
- (i) A Director who to his knowledge is in any way (directly or indirectly) interested in a contract, arrangement, transaction or proposal with the Company should declare the nature of his interest at the meeting of the Board at which the question of entering into the contract, arrangement, transaction or proposal is first considered if he knows his interest then exists or in any case at the first meeting of the Board after he knows that he is or has become interested.
- (j) At every Annual General Meeting one third of the Directors for the time being who are subject to retirement by rotation shall retire from office. A retiring Director shall be eligible for re-election.

3.1.7 Borrowing Powers

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets both present and future, including uncalled capital, and to issue debentures and other securities but shall restrict the borrowings of the Company so as to ensure (in so far as they can) that the aggregate principal amount for the time being remaining undischarged of all monies borrowed by the Group (as defined in the Articles), and for the time being owing to persons outside the Group less the aggregate amount of investments, shall not without the previous sanction of an ordinary resolution exceed a sum equal to 3 times of the aggregate of:

- (a) the amount paid up on the allotted share capital of the Company; and
- (b) the amounts standing to the credit of the consolidated reserves of the Company (including the profit and loss account and any share premium or capital redemption reserve);

after the deductions, exclusions and adjustments as provided in the Articles.

3.1.8 Untraced shareholders

Subject to the notice and advertising requirements set out in the Articles, the Company may sell any member's shares in the Company or any shares to which a person is entitled by transmission if during the period of not less than 12 years prior to such notice at least three dividends in respect of the shares in question have become payable, all warrants, cheques or money orders in respect of such shares have remained uncashed and no indication has been received by the Company of the whereabouts or existence of such member or person entitled by transmission. The Company will account to such member or person (without interest) on the basis set out in the Articles.

4. **ADDITIONAL INFORMATION ON THE BOARD**

- (a) The directorships and partnerships held by each of the Directors over the five years preceding the date of this document other than in the Company are as follows:

	Current	Past
John Kennair	Romag Holdings Plc Romag Limited Romag Inc SHK Limited Zytronic	Derwentside Industrial Development Agency Tulip Timber Limited ⁽¹⁾
Peter Jones	Romag Holdings Plc Romag Limited Zytronic	
David Banks	ProTurn Limited	KNX Limited
Sir David Chapman, Bt	Northern Rock Plc High Gosforth Park Limited North East Regional Investment Fund Limited NES General Partner Limited Northumbria Coalition Against Crime Breath North Appeal Limited McGill (GB) University Trust The Shrievally Association Limited Team General Partner Limited	Wise Speke Limited Pilgrim Nominees Limited The Ice Foundation Limited Gordon Durham Holdings Limited Sunderland City Radio Limited Cresstale Limited ⁽²⁾ Northern Rock Building Society
Tudor Davies	Stratagem Plc Agreeinsure Limited	Hicking Pentecost Plc* Scottish Highland Hotels Plc

*Also subsidiaries and associates of Hicking Pentecost Plc, namely Alan Paine Limited, Alan Paine Knitwear Limited, Alan Paine (Wales) Limited, Barbour Campbell Limited (Northern Ireland), Barbour Campbell Electrical Limited, Barbour Campbell Group Limited, Barbour Campbell Group ESOP Trustee Limited, Barbour Campbell Merchants Limited, Barbour Campbell Plumbers Limited, Barbour Campbell Textiles Limited, Barbour Campbell Threads Limited, Barbour Threads Limited (Scotland), Barbour Threads Manufacturing Limited, Berry, Stiplo and Paine Limited, British Textile Manufacturing Company Limited (The), Chobic Limited, Crawford Threads Limited, Coxmoore Clothing Limited, Dunbar McMaster Limited, Eltico Mills Limited, Fairford Clothing Limited, Fairplay Clothing Limited, Forgemasters PLC, Frank & Bryce Limited, GC Limited, Garth Estates Limited, HB Tanks Limited, F. W. Hayes & Co., Limited, Henry Campbell & Company, Limited, Hicking Pentecost & Co (N.I.) Limited, Hicking Pentecost (Dyers) Limited, Hicking Pentecost (EST) Trustees Limited, Hicking Pentecost (Pension Trustees) Limited, Hicking Pentecost Textiles Limited, Island Spinning Company, Limited, James Pearsal & Co. Limited, Linen Thread Company Limited (The), Milston Property Company Limited (The), Munrospun Limited, Nicholson Plastics Limited, NJW Limited, Periquip Services Limited, Robert Stewart & Sons, Limited, Saville Limited, Straven Limited, Straven Knitwear Limited, Wolfhill Spinning Company, Limited, York Street (Threads) Limited, Alan Paine GmbH, Barbour Threads B.V., Barbour Bitrim Threads (Proprietary) Limited, Barbour Campbell Industria Filati S.p.A., Barbour Threads Belgium N.V., Barbour Threads Limited (Republic of Ireland), Barbour Threads Limited (Hong Kong), Barbour Threads (Guangzhou) Limited, Barbour Threads (Proprietary) Limited (Australia), Barbour Threads (Proprietary) Limited (South Africa), Barbour Threads, Inc., Barbour Vardhman Threads Limited, Hicking Pentecost, Inc., Irish Thread Manufacturing Company Limited (The) and Longford Manufacturing Limited.

David Banks is a partner in David Banks Associates, a management consultancy.

NOTES:

- ⁽¹⁾ Mr Kennair was a non-executive director of Tulip Timber Limited when it went into liquidation in 1996.
- ⁽²⁾ Sir David Chapman, Bt, was a non-executive director of Cresstale Limited, acting as the nominee director for 3i plc. Cresstale Limited went into administrative receivership in August 1999 shortly before which Sir David Chapman, Bt, had resigned as a director.

- (b) No Director has any unspent convictions relating to indictable offences, has been bankrupt or has made or been the subject of any individual voluntary arrangement.
- (c) Save as disclosed in paragraph (a) above, none of the Directors has been a director of any company at the time of or within 12 months preceding the date of its receivership, compulsory liquidation, creditors voluntary liquidation,

administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors and none of the Directors has been a partner of any partnership which has been placed into compulsory liquidation or administration or entered into a partnership voluntary arrangement at the time of or within 12 months preceding such event or been a director or partner of a company or partnership any of whose assets have been the subject of a receivership at the time of or within 12 months preceding such events.

- (d) None of the Directors has been publicly criticised by any statutory or regulatory authority (including recognised professional bodies) or been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

5. DIRECTORS' AND OTHER INTERESTS

- (a) The interests (all of which are beneficial) of the Directors and their immediate families and of persons connected with them within the meaning of Section 346 of the Act in the share capital of the Company as at the date of this document (which have been notified to the Company pursuant to Section 324 of the Act and are required to be entered in the Register of Directors' Interests maintained under Section 325 of the Act) or could, with reasonable diligence, be ascertained by the Directors and as they are expected to be immediately following completion of the Placing and Offer are as follows:

	Number of Ordinary Shares before the Placing and Offer	Number of Ordinary Shares after the Placing and Offer	Percentage of issued capital after the Placing and Offer*	Options
John Kennair	3,283,223	3,283,223	23.3	—
Peter Jones	240,560	240,560	1.7	36,363
David Banks	—	4,545	—	—
Sir David Chapman, Bt	—	20,000	0.1	—
Tudor Davies	—	181,818	1.3	—

*assuming Maximum Subscription

Save as disclosed in this paragraph 5(a), no Director nor any member of their respective immediate families, nor any person connected with them within the meaning of section 346 of the Act, is interested in any share capital of the Company.

- (b) No loan or guarantee has been granted or provided by the Company to any Director or any person connected with them.
- (c) It is estimated that the aggregate emoluments (including benefits in kind and pension contributions) for the period ending 30 September 2000, assuming Admission, will amount to approximately £65,000 under the arrangements in force at the date hereof.
- (d) David Banks is a partner in David Banks Associates, which has provided consultancy services to Zytronic from 1 January 2000 to the date of this document. In this period the aggregate fees received or invoiced but not yet paid amount to £13,250 plus VAT and outlays.
- (e) Save as disclosed in this document, none of the Directors have or has had any interest in transactions effected by the Company since its incorporation which are or were unusual in their nature or conditions or which are or were significant to the business of the Company.

6. SUBSTANTIAL SHAREHOLDER

In addition to the interests of John Kennair disclosed in paragraph 5(a), the Company is aware of the following person who at the date of this document and following Admission directly or indirectly, jointly or severally, holds or will hold 3 per cent or more of the ordinary share capital of the Company or exercises or could exercise control over the Company:

Shareholder	Number of Ordinary Shares before and following the Placing and Offer	Percentage of issued share capital following the Placing and Offer*
Schroder Trust AG	3,283,223	23.3

*assuming Maximum Subscription

Save as disclosed above, the Company is not aware of any person who, immediately following the Placing and Offer, will directly or indirectly, be interested in 3 per cent or more of the ordinary share capital of the Company or who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

7. DIRECTORS' SERVICE CONTRACTS

The Directors whose names appear on page 5 of this document have been appointed to the offices set against their respective names. The service contracts and contract for services summarized below are each dated 7 June 2000, all of which are conditional upon Admission.

- (i) John Kennair has entered into a service contract with the Company which provides for him to act as Chairman of the Company continuing unless terminated by either party giving not less than 12 months notice. His salary is £75,000 per annum to be reviewed annually in June of each year. Mr Kennair is entitled to other benefits approved by the Remuneration Committee. Mr Kennair is entitled to have 2% of his annual salary paid into a personal pension scheme. The contract imposes restrictions on being involved in other competing businesses during the period of his employment and for 12 months thereafter.
- (ii) Peter Jones has entered into a service contract with the Company which provides for him to act as Managing Director of the Company continuing unless terminated by either party giving not less than 12 months notice. His salary is £55,000 per annum to be reviewed annually in June of each year. Mr Jones is entitled to other benefits approved by the Remuneration Committee. Mr Jones is entitled to have 2% of his annual salary paid into a personal pension scheme, to use a company car, to death in service benefit to the level of four times his annual salary, and private health and dental cover. The contract imposes restrictions on being involved in other competing businesses during the period of his employment and for 12 months thereafter.
- (iii) 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 Company. The Agreement is for a fixed period of 12 months from 7 June 2000 subject to review after completion of the audit of the Company's accounts for the year ending 30 September 2000. The services are to be provided by Mr Banks personally whenever possible for a minimum period of 60 days per annum. David Banks Associates will receive a fee of £2,500 per calendar month exclusive of VAT. David Banks Associates is not entitled to any pension, bonus or other benefits.
- (iv) Sir David Chapman has been appointed a non-executive director of the Company for an annual fee of £18,000. His appointment is subject to termination by either party giving 6 months notice.
- (v) Tudor Griffith Davies has been appointed a non-executive director of the Company for an annual fee of £18,000. His appointment is subject to termination by either party giving 6 months notice.

8. SHARE OPTION SCHEME

The following is a summary of the rules of the Zytronic share option scheme:

1. *Eligibility*
Any person who is a bona fide employee of the Group is eligible to participate in the share option scheme.
2. *Grant of Option*
Options (which may relate to new and/or existing shares) may be granted at any time following the approval of the share option scheme by shareholders, subject to the rules of the AIM Model Code. No options may be granted later than 10 years after the approval of the share option scheme by shareholders.
3. *Individual participation*
The extent of any individual's participation in the share option scheme is at the discretion of the Directors.
4. *Acquisition price*
The price per ordinary share payable upon the exercise of an option will not be less than the higher of:
 - (a) the middle-market quotation of an ordinary share on the London Stock Exchange on the Grant Date, (or such other day as may be agreed with the Inland Revenue) or such other price as the Directors may determine; and
 - (b) the nominal value of an ordinary share (unless the option is expressed to relate only to existing shares).
5. *Exercise of Options*
In normal circumstances, an option will only be capable of being exercised after three years. In addition, the exercise of options may be made subject to satisfaction of certain performance criteria.

Exercise of options is permitted for a limited period (irrespective of the period for which the option has been held, or whether any performance condition has been satisfied) following death, cessation of employment by reason of injury, ill health, disability, redundancy or where the optionholder's employer ceases to be within the Group. Options may also be exercised early on retirement at the age which the optionholder is bound to retire under his contract of employment, provided the performance condition is satisfied. Where the optionholder ceases employment in other circumstances, options can only be exercised if and to the extent that the Board so decides.

Options may be exercised early in the event of an amalgamation, takeover, reconstruction or winding-up of the Company. In such circumstances, the Board at that time may, at its discretion, treat any performance condition as satisfied, taking into account the underlying financial performance of the Company up until the relevant event.

The periods within which options can be exercised by "leavers" are:

- death—18 months of death;
- injury, disability, redundancy, retirement at contractual age—6 months of leaving; and
- other circumstances—3 months of leaving, subject to Board's discretion.

6. *Rights attaching to shares*

All shares allotted under the share option scheme will rank *pari passu* with all other ordinary shares of the Company for the time being in issue (save as regards any rights attaching to such shares by reference to a record date prior to the date of allotment).

7. *Variation of capital*

In the event of any variation of share capital the Board may make such adjustments as it considers appropriate to the number of shares subject to options and the price payable on exercise of options.

8. *Alterations to the share option scheme*

The Board may at any time alter or add to the share option scheme in any respect, provided that the prior approval of shareholders is obtained for alterations or additions to the advantage of participants. The requirement to obtain the prior approval of shareholders will not, however, apply in relation to any alteration or addition which is minor in nature and is made to benefit the administration of the share option scheme, to take account of a change in legislation or to obtain or maintain favourable tax exchange control, or regulatory treatment for participants or the Group.

9. *Limits on the issue of shares under the share option scheme*

No options may be granted under the share option scheme which would cause the number of shares which have been or may be issued in pursuance of options granted under the share option scheme to exceed 5% of the Company's issued ordinary share capital from time to time or when combined with options granted under any other employers' share scheme over a ten year period, 10% of the Company's issued share capital from time to time.

On 7 June 2000 the Company granted options over, in aggregate, 135,452 Ordinary Shares conditionally on Admission under the share option scheme.

9. **WORKING CAPITAL**

In the Company's opinion, having made due and careful enquiry, the working capital available to the Group will, from Admission, be sufficient for its present requirements, that is for at least the 12 months following the date of this document.

10. **PREMISES**

Zytronic trades from two leasehold premises under the leases summarised below:

Address	Landlord	Size (Sq feet)	Lease expires	Annual Rent £000
Patterson Street, Blaydon	Naggar, Nagger and Klimt	35,000	2024	129
Howarth Court, Blaydon	A E White	19,000	2024	90

11. **DEMERGER**

Zytronic was formerly a wholly owned subsidiary of Romag Holdings Plc. The Demerger involved the following key steps:-

- (a) On 22 November 1999 a new company, RGPH was formed;
- (b) On 27 March 2000 Romag Holdings Plc transferred by way of dividend in specie, its 100% shareholding in Zytronic to RGPH;
- (c) On 26 April 2000 Zytronic transferred its business and associated intellectual property and knowhow relating to the manufacture of reinforced glass for use in the transport sector to Romag Limited effective 1 October 1999;
- (d) On 26 April 2000 Romag Holdings Plc transferred the intellectual property relating to the manufacture of transparent composites to Zytronic;
- (e) On 22 November 1999 a second new company was established, the Company;

- (f) On 27 April 2000 SHK Limited (originally a shareholder in Romag Holdings Plc and thus also a shareholder in RGPH) transferred, by way of dividend in specie, its shareholding in RGPH to the Company in exchange for new shares to the shareholders of SHK Limited;
- (g) On 28 April 2000 the Company made an offer to the shareholders in RGPH (other than itself) to acquire their shares in RGPH in exchange for shares in the Company on a 1 for 1 basis. This offer was declared unconditional on 24 May 2000 on the basis that acceptances had been received in respect of 95% of the shares in RGPH in respect of which the Offer was made. The offer has been extended to 14 July 2000 and thereafter the Company intends to acquire the remaining shares compulsorily under Sections 428 to 430F of the Act;
- (h) On 7 June 2000 RGPH transferred at market value Zytronic to the Company. Zytronic thereby became a wholly owned subsidiary of the Company.

The transaction was undertaken after receipt from the Inland Revenue of clearances under Sections 707 and 215 Income and Corporation Taxes Act 1988 and under Section 138 Capital Gains Taxes Act 1992.

The principal documents whereby the Demerger was effected are:—

- (a) An agreement dated 27 March 2000 between RGPH and Romag Holdings plc relating to a dividend *in specie* of Zytronic (then Romag Glass Products Limited);
- (b) An agreement dated 26 April 2000 between (1) Zytronic (2) Romag Limited and (3) Romag Holdings Plc pursuant to which Zytronic sold that part of its business concerned with the business of manufacture and supply of specialist reinforced glass for use in the transport sector to Romag Limited. The Company does not hold any shares in Romag Limited.
- (c) An assignment dated 26 April 2000 between (1) Zytronic (2) Romag Holdings Plc and (3) Romag Limited whereby the goodwill, intellectual property rights, knowhow, contracts and hiring agreements relating to the vehicle business of Zytronic were transferred to Romag Limited effective 1 October 1999.
- (d) An assignment dated 26 April 2000 between (1) Romag Holdings Plc and (2) Zytronic whereby Romag Holdings Plc assigned to Zytronic the intellectual property set out in the schedule to that assignment relating to the manufacture of transparent composite substrates.
- (e) An agreement dated 27 April 2000 made between (1) SHK Limited (2) the Company (3) RGPH (3) John Martin Kennair and (4) Schroder Trust AG relating to the distribution by SHK Limited of its shareholding in RGPH to the Company.
- (f) An Offer Document dated 28 April 2000 by the Company to the shareholders of RGPH to purchase the remainder of the issued share capital of RGPH comprising 1,575,095 Ordinary Shares of 1 pence each not already owned by the Company.
- (g) A share transfer dated 7 June 2000 whereby RGPH transferred 1,000,000 ordinary shares of 5p each in Zytronic to the Company at market value.

12. UK TAXATION

The following paragraphs, which are intended as a general guide only and are based on current legislation and Inland Revenue practice as at the date of this document, summarise advice received by the Directors of the Company as to the position of shareholders who are resident or ordinarily resident in the United Kingdom for tax purposes and who beneficially hold their shares as investments rather than trading stock. Any shareholder who is in any doubt as to their tax position, or who is subject to tax in a jurisdiction other than the United Kingdom, is strongly recommended to consult their professional advisers.

VCT and EIS Relief

The Inland Revenue has given provisional confirmation to Zytronic's advisers that of the funds raised from the Placing and Offer a maximum of £4.5 million should qualify for Enterprise Investment Scheme (EIS) Relief. The Inland Revenue have also indicated that the Company should, for VCT purposes, meet the relevant company conditions under Schedule 28B Income and Corporation Taxes Act 1998. The Inland Revenue have also indicated that the maximum funds raised in the Placing and Offer which will qualify for EIS Relief and for VCT purposes cannot exceed £4.5 million provided that this amount is expended for qualifying purposes. The availability of EIS Relief may therefore be limited.

Under the EIS provisions, income tax relief equal to 20 per cent of the amount subscribed for the New Ordinary Shares under the Placing and Offer can be claimed by qualifying individuals up to their annual subscription limit, which in 2000/2001 is £150,000. Any gains arising on a disposal of the New Ordinary Shares after the subscriber has held them for 5 years will not be taxable provided the EIS income tax relief was given and not withdrawn. This qualifying period will be reduced to 3 years, for shares issued after 5 April 2000, if the Finance Bill is passed unamended.

Generally, individuals over 18 years and most trustees, who are resident in the United Kingdom for tax purposes, should be able to claim EIS deferral relief and thereby defer a chargeable gain arising on a disposal of an asset to the extent that they subscribe for New Ordinary Shares within the time limits specified below. For EIS deferral relief there is no monetary or other limit on the amount of gains that can be deferred. The period for reinvestment commences one year before and ends three years after the disposal that gives rise to the gain for which deferral relief is claimed.

The availability of these investment reliefs depends upon, amongst other things, the Company continuing to satisfy the requirements of being a qualifying company. Further, in order to make a valid claim for EIS reliefs, a shareholder must receive an appropriate certificate from the Company.

Taxation of Dividends

- (a) There is no United Kingdom withholding tax on dividends and, since 6 April 1999, no advance corporation tax.
- (b) An individual shareholder who is resident (for tax purposes) in the United Kingdom and who receives a dividend paid by the Company will currently be entitled to receive a tax credit equal to 10 per cent of the combined total of the dividend paid and the tax credit. The individual will be taxable upon the total of the dividend and the related tax credit which will be regarded as the top slice of the individual's income. An individual shareholder who is not liable to income tax at a rate greater than the basic rate (currently 22 per cent) will pay tax on the dividend and the related tax credit at the dividend income ordinary rate currently 10 per cent. Accordingly, the tax credit will be treated as satisfying the individual's liability to income tax in respect of the dividend. To the extent that the dividend and related tax credit (taken together with other taxable income) exceeds the individual's threshold for the higher rate of income tax the individual will, to that extent, pay tax on the dividend and related tax credit at the dividend income upper rate (currently 32.5 per cent). Accordingly a shareholder who is a higher rate tax payer will have further income tax to pay at the rate of 22.5 per cent on the dividend and related ordinary rate tax credit (equivalent to 25 per cent of the net dividend). Tax credits are generally no longer repayable to shareholders with no tax liability however, where that shareholder holds his shares in an Individual Savings Account or a Personal Equity Plan, the tax credits will be recoverable on dividends paid by the Company before 6 April 2004.
- (c) Subject to exceptions for certain insurance companies and companies which hold shares as trading stock, a shareholder that is a company resident (for tax purposes) in the United Kingdom and that receives a dividend paid by the Company will not be liable to corporation tax or income tax on the dividend.
- (d) Subject to certain exceptions for Commonwealth citizens, citizens of the Republic of Ireland, residents of the Isle of Man or the Channel Islands, nationals of states which are part of the European Economic Area and certain others, the right of a shareholder who is not resident (for tax purposes) in the United Kingdom to claim payment of any part of the tax credit in respect of a dividend received from the Company will depend on the existence and terms of any double tax treaty between the United Kingdom and the country in which the holder is resident. An individual or corporate shareholder who holds less than 10 per cent of the voting shares of the Company will not be entitled to payment of any part of the tax credit. However, corporate shareholders which hold 10 per cent or more of the voting shares of the Company may be able to claim payment of part of the tax credit. Such amount will normally be very small, typically one quarter of one per cent. Shareholders who are not resident in the United Kingdom for tax purposes should consult their own tax advisers concerning their tax liabilities on dividends received, whether they are entitled to claim any part of the tax credit and, if so, the procedure for doing so. Non-United Kingdom resident shareholders may also be subject to taxation on dividends in their country of tax residence.

Taxation on Capital Gains for Shareholders

- (e) Subject to the comments above under the heading "*VCT and EIS Relief*", if a shareholder disposes of all or any of his or its Ordinary Shares, he or it may, depending on the shareholder's particular circumstances, incur a liability to taxation on chargeable gains.

Stamp Duty and Stamp Duty Reserve Tax (SDRT)

- (f) Except as mentioned in paragraph (i) below, no liability to stamp duty or SDRT will arise on the issue or allotment of New Ordinary Shares by the Company pursuant to the Placing and Offer.
- (g) Except as mentioned in paragraph (i) below, the transfer of existing Ordinary Shares by the existing Shareholders will be liable to ad valorem stamp duty at the rate (in broad terms) of 0.5 per cent of the amount or value of the consideration paid, or if an unconditional agreement to transfer such shares is not immediately completed by a duly stamped transfer, or where the transfer is effected under CREST, SDRT at the rate of 0.5 per cent of the amount or value of the consideration paid.
- (h) Except as mentioned in paragraph (i) below, the transfer on sale of New Ordinary Shares, both before and after the issue of certificates and the transfer on sale of existing Ordinary Shares will generally be liable to ad valorem stamp duty at the rate (in broad terms) of 0.5 per cent of the amount or value of the consideration paid, or if an unconditional agreement to transfer such shares is not immediately completed by a duly stamped transfer or where the transfer is effected under CREST, SDRT at the rate of 0.5 per cent of the amount or value of the consideration paid. Liability to pay such stamp duty or SDRT is that of the transferee or purchaser. In the case of transfers in CREST, SDRT will be collected in CREST in accordance with the rules of the CREST system.
- (i) Where any charge to stamp duty or SDRT arises under sections 67, 70, 93 or 96 of the Finance Act 1986 (which broadly apply where ordinary shares are transferred or, in certain circumstances, are issued to persons who issue depository receipts or provide clearance services, or their nominees or agents), stamp duty at the higher rate (in broad terms) of 1.5 per cent or SDRT at the higher rate of 1.5 per cent (as appropriate) will be payable on the amount or value of the consideration paid for the issue or transfer.

13. PLACING AND OFFER AGREEMENT

By an agreement dated 8 June 2000 Brewin Dolphin Securities has agreed conditionally, *inter alia*, on Admission becoming effective not later than 20 July 2000 as agents for the Company to use its reasonable endeavours to effect the Placing as agents for the Company and to make the Offer.

Under the Placing and Offer Agreement, the Company and the Directors have given Brewin Dolphin Securities certain warranties regarding, *inter alia*, the accuracy of the information contained in this document and the Company and the Directors have given certain indemnities. The provisions of the Placing and Offer Agreement permit that the agreement may be terminated by Brewin Dolphin Securities prior to Admission in certain circumstances.

In terms of the Placing and Offer Agreement the Company has agreed to pay all the costs and expenses of the Placing and Offer, including fees of £130,000 (exclusive of VAT) to Brewin Dolphin Securities in respect of corporate finance and marketing services. In addition, the Company has agreed to pay commission to Brewin Dolphin Securities in respect of the Placing and Offer of 1.25% (exclusive of VAT) of the aggregate Issue Price of Ordinary Shares subscribed under the Placing and the Offer.

14. INTELLECTUAL PROPERTY

14.1 The intellectual property rights used by Zytronic can be broadly divided into three categories:

14.1.1 intellectual property licensed to Zytronic;

14.1.2 intellectual property created by Zytronic itself;

14.1.3 intellectual property acquired from Romag Holdings Plc.

14.2 Licence from the Company's touchscreen consultant.

The licence is a non-exclusive licence throughout the world to manufacture and sell touchscreen products using specified patents and all associated know-how, technical, marketing and other information relating to the patents. The licence is effective for five years from 28 December 1999. The Company is required to pay the Company's touchscreen consultant a royalty of 7.5% of the net sales value of all products sold which are manufactured under the licence. In the event that the Company's touchscreen consultant fails to pay any renewal fees in respect of any of the patents, then Zytronic has the right to make payment in respect of such renewal fees in order to ensure the maintenance of the patents.

14.3 Intellectual property created by Zytronic and acquired from Romag Holdings Plc

Zytronic's rights on the know-how, designs and processes involved in the manufacture of its products are not, for reasons of confidentiality, registered. Save for the licence referred to above, Zytronic is not dependent on the licensing of rights from any third party in connection with its business. The intellectual property rights described in this paragraph 14 are of fundamental importance to Zytronic's business.

15. LITIGATION

No member of the Group has been engaged in, or is currently engaged in, any litigation or arbitration proceedings which has or may have a significant effect on the financial position of the Group and, so far as the Directors are aware, there are no such proceedings pending or threatened against any member of the Group.

16. GENERAL

(a) The accounting reference date of the Company is 30 September.

(b) The minimum amount which, in the opinion of the Directors, must be raised by the Company under the Placing and Offer to provide the sums required in respect of the matters specified in paragraph 21 of Schedule 1 to the Regulations is £5.64 million, which will be applied as follows:

(i) approximately £497,000 (excluding VAT) in respect of the expenses of the Placing and Offer; and

(ii) the balance of the proceeds of the Placing and Offer receivable by the Company after payment of the sums described above will be used as working capital (including for the repayment of loans as described in Part II of this document).

(c) Brewin Dolphin Securities has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name in the form and context in which it appears.

(d) The total costs and expenses payable by the Company in connection with the Placing and Offer (including professional fees, commissions, the costs of printing and the fees payable to the registrars and Brewin Dolphin Securities) are estimated to amount to £497,000 (excluding VAT). The net proceeds of the Placing and Offer are £6.14 million on the basis of the Maximum Subscription and £5.15 million on the basis of the Minimum Subscription.

- (e) For the purposes of paragraph 25 of Part IV of Schedule 1 to the Regulations, the subscription lists for the Placing and the Offer will open at 10.00 a.m. on 9 June 2000 and may be closed at any time thereafter but not later than 3 July 2000 unless extended by Brewin Dolphin Securities and the Directors.
- (f) There are no amounts to be provided otherwise than from the Placing and Offer in respect of the matters specified in paragraph 21(a)(i) to (iv) of Schedule 1 of the Regulations.
- (g) This prospectus is published on 8 June 2000.
- (h) Save as described in paragraph 5(d) no person (other than the professional advisers referred to in this Prospectus) has received, directly or indirectly, from the Company within 12 months preceding the date of this document or entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission fees totalling £10,000 or more or securities in the Company with a value of £10,000 or more, calculated by reference to the Issue Price, or any other benefit with a value of £10,000 or more at the date of Admission.

17. AVAILABILITY OF PROSPECTUS

Copies of this Prospectus are available during normal business hours on any weekday (except Saturdays and public holidays) free of charge from the Company's registered office and at the office of Brewin Dolphin Securities and shall remain available for at least 14 days after Admission.

18. DOCUMENTS ON DISPLAY

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the registered office of the Company for a period of 14 days from the date of this document:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the reports from Ernst & Young set out in Part III of this document;
- (c) the service contracts and contract for service referred to in paragraph 7 of this Part IV;
- (d) the share option scheme described in paragraph 8 of this Part IV;
- (e) the Placing and Offer Agreement described in paragraph 13 of this Part IV;
- (f) the licence described in paragraph 14.2 of this Part IV;
- (g) the contracts relating to the Demerger described in paragraph 11 of this Part IV; and
- (h) the consent letter referred to in paragraph 16(c) of this Part IV.

PART V

TERMS AND CONDITIONS OF APPLICATION

1. HOW TO APPLY FOR NEW ORDINARY SHARES

(a) General

If you wish to apply for New Ordinary Shares you must complete an Application Form or Priority Application Form in accordance with the instructions set out herein. Applications (including Priority Applications) must be made for a minimum of 1,000 New Ordinary Shares and thereafter must be made in multiples of 100 New Ordinary Shares.

(b) Applications

Only one application can be made by you (or on your behalf or for your benefit) on an Application Form or Priority Application Form.

(c) Allocation of New Ordinary Shares

Priority will be given to Qualifying Shareholders applying on Priority Application Forms as described in Part II of this document. If there has been a heavy demand for New Ordinary Shares, you may not receive all or any of the New Ordinary Shares for which you have applied.

(d) Expected despatch of definitive share certificates and crediting of CREST Accounts

An application will be made for the Ordinary Shares and the New Ordinary Shares to be admitted to CREST. It is expected that all of such shares, when issued and fully paid, may be held and transferred by means of CREST.

It is anticipated that you will be able to hold your New Ordinary Shares in either certificated or uncertificated form. If you do not complete Box 5 on the Application Form or Priority Application Form a share certificate will be sent to you incorporating the registered details shown on the Application Form or Priority Application Form. Share certificates are expected to be despatched on 6 July 2000. No temporary documents of title will be issued and pending such despatch, transfers will be certified against the register of members of the Company. If you complete Box 5 on the Application Form or Priority Application Form, CRESTCo will be instructed to credit your electronic stock account with the appropriate number of New Ordinary Shares on the date of Admission. It is anticipated that trading in the Ordinary Shares on AIM will commence on 6 July 2000.

(e) Applications irrevocable

Your application shall be deemed to be an offer up to the value of your application, shall be deemed to take effect on despatch of your Application Form or Priority Application Form and shall be irrevocable.

2. TERMS AND CONDITIONS OF APPLICATION

In the case of joint application, references to "you" in these terms and conditions of application (which form part of the document setting out the Offer) are to each of you, and your liability is joint and several.

The section headed "How to apply for New Ordinary Shares" as set out above and the section headed "How to Complete the Application Form and Priority Application Form" as set out below form part of these terms and conditions of application. These terms and conditions of application constitute part of the terms of the Offer.

- (a) The contract created by the acceptance of applications under the Offer will be conditional upon the following occurring on or before 9.00 a.m. on 6 July 2000 or such later date as Brewin Dolphin Securities may agree:
 - (i) the Placing and Offer Agreement becoming unconditional and not being terminated; and
 - (ii) the London Stock Exchange admitting the existing Ordinary Shares, the Placing Shares and those Offer Shares for which applications are accepted to AIM and such admission becoming effective.
- (b) The right is reserved by the Company to present all cheques and bankers drafts for payment on receipt and to refrain from crediting CREST accounts or retain share certificates and surplus application monies pending clearance of successful applicants' cheques and banker's drafts. The Company also reserves the right to reject in whole or in part, or to scale down or limit any application. If any application is not accepted in full or if any contract created by acceptance does not become fully unconditional, the application monies or, as the case may be, the balance thereof will be returned (without interest) by returning each relevant applicant's cheque or banker's draft or by crossed cheque in favour of the first-named applicant, through the post to the address of the

first-named applicant at the risk of the person(s) entitled thereto. In the meantime, application monies will be retained by Computershare Services PLC ("the Receiving Agents") in a separate account any interest thereon accruing for the benefit of the Company.

- (c) The verification of identity requirements of the Money Laundering Regulations 1993 will apply to applications with a value of £10,000 or greater, or to one of a series of linked applications whose aggregate value exceeds that amount, which are to be settled by way of a third party payment and verification of the identity of applicant(s) for New Ordinary Shares may be required. Failure to provide the necessary evidence of identity within a reasonable period of time following a request for verification of identity and in any event by no later than 3.00 p.m. on 3 July 2000 may result in your application being treated as invalid.

In order to avoid this, payment should be made by means of a cheque drawn by the applicant named in the enclosed Application Form or Priority Application Form, by the person named in Box 3 on the Application Form or Priority Application Form. If this is not practicable, and you use a cheque drawn by a third party, a building society cheque or a bankers' draft, you should:

- (a) write the name and address of the applicant named in the Application Form or Priority Application Form or, as the case may be, the name of the person named in Box 3 on the Application Form or Priority Application Form on the back of the cheque, building society cheque or bankers' draft and record the date of birth of that person;
- (b) if a building society cheque or bankers' draft is used, ask the building society or bank to endorse on the cheque or draft the name and account number of the person whose building society or bank account is being debited;
- (c) if you are making the application as agent for one or more persons, indicate on the Application Form or Priority Application Form whether you are a United Kingdom or EU regulated person or institution (e.g. a bank or broker) and specify your status. If you are not a United Kingdom or EU regulated person or institution, you should contact Computershare Services PLC on telephone number 0870 702 0100 and seek guidance; and
- (d) if you deliver the Application Form or Priority Application Form by hand, bring appropriate photographic evidence of identity, such as a passport or driver's licence.

In any event, if it appears to Computershare Services PLC that an applicant is acting on behalf of some other person, further verification of the identity of any person on whose behalf the applicant appears to be acting will be required. In relation to any application in respect of which the necessary verification of the identity of the applicant named in the Application Form or Priority Application Form or, as the case may be, the person named in Box 3 on the Application Form or Priority Application Form or the person on whose behalf any such applicant appears to be acting, has not been received on or before 3.00 p.m. on 3 July 2000, the Company will treat the relevant application as invalid and application monies will be returned (without interest).

- (d) By completing and delivering an Application Form or Priority Application Form, you, as the applicant (and, if you sign the Application Form or Priority Application Form on behalf of somebody else or a corporation, that person or corporation, except as referred to in paragraphs (vi) and (xiv) below):
- (i) offer to subscribe under the Offer for the number of New Ordinary Shares specified in your Application Form or Priority Application Form (or such lesser number for which your application is accepted) at the Issue Price on the terms of and subject to the conditions of this document, including these terms and conditions of application, and the memorandum and articles of association of the Company;
 - (ii) warrant that your cheque or banker's draft will be honoured on first presentation and agree that if it is not so honoured you will not be entitled to receive a share certificate or have your CREST account credited in respect of the shares applied for or to enjoy or receive any rights or distributions in respect of such shares unless and until you make payment in full in cleared funds for such shares and payment is accepted by the Company in its absolute discretion (which acceptance may be on the basis that you indemnify it against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation) and you agree that, at any time prior to the unconditional acceptance by the Company of such later payment, the Company may (without prejudice to its other rights) avoid the agreement to subscribe for such shares and may allot such shares to some other person, in which case you will not be entitled to any payment in respect of such shares other than the refund to you at your risk of any proceeds of the cheque or banker's draft accompanying your application, without interest;
 - (iii) agree that, in respect of those New Ordinary Shares for which your application has been received and is not rejected, acceptance of your application shall be constituted by receipt of a share certificate or your CREST account being credited;
 - (iv) agree that any monies returnable to you may be retained by the Receiving Agents pending clearance of your remittance and that such monies will not bear interest;

- (v) authorise the Receiving Agents to instruct CRESTCo to credit your electronic stock account with the appropriate number of New Ordinary Shares or, as appropriate, to send share certificate(s) in respect of the number of New Ordinary Shares for which your application is accepted and/or a crossed cheque for any monies returnable, by post, without interest, at the risk of the person(s) entitled thereto, to the address of the person (or in the case of joint holders the first-named person) named as an applicant in the Application Form or Priority Application Form and to procure that your name (together with the name(s) of any other joint applicant(s)) is/are placed on the register of members of the Company in respect of such New Ordinary Shares;
 - (vi) warrant that, if you sign the Application Form or Priority Application Form on behalf of somebody else or on behalf of a corporation, such person or corporation will also be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained herein and undertake to enclose your power of attorney or a copy thereof duly certified by a solicitor with the Application Form or Priority Application Form;
 - (vii) agree that all applications, acceptances of applications and contracts resulting therefrom under the Offer shall be governed by and construed in accordance with English law, and that you submit to the jurisdiction of the English Courts and agree that nothing shall limit the right of the Company to bring any action, suit or proceedings arising out of or in connection with any such applications, acceptances of applications and contracts in any other manner permitted by law or in any court of competent jurisdiction;
 - (viii) authorise the Receiving Agents or any person authorised by them, as your agent, to do all things necessary to effect registration of any New Ordinary Shares subscribed by you into your name(s) or into the name(s) of any persons in whose favour the entitlement to receive any such New Ordinary Shares has been transferred and authorise any representative of the Receiving Agents to execute any document required therefor;
 - (ix) confirm that, in making such application, you are not relying on any information or representation in relation to the Company other than that contained in this document and agree that neither the Company nor any person responsible solely or jointly for this document or any part thereof or involved in the preparation thereof shall have any liability for any such other information or representation;
 - (x) declare that you have read, understood and agree to the terms and conditions contained in this document and the Application Form (or the Priority Application Form), including the Risk Factors set out in Part II of this document and have taken the appropriate professional advice which you consider necessary before submitting the application and that you are aware of the special risks involved in participating in an investment of this nature and you understand that your application is made upon the terms of the Offer;
 - (xi) acknowledge that in relation to the transactions described in this document, the advisers of the Company mentioned therein are acting for the Company and are not acting for you or on your account and that accordingly, will not be responsible to you for providing protections afforded to their clients, for advising you on any transactions described therein or for ensuring that such transactions are suitable for you;
 - (xii) confirm and warrant that you have read and complied with paragraph (e) below;
 - (xiii) confirm that you have reviewed the restrictions contained in paragraphs (f) to (h) below and warrant as provided therein;
 - (xiv) warrant that neither you nor any person on whose behalf you are applying is under the age of 18;
 - (xv) agree that all documents and cheques sent by post to, by or on behalf of the Company or the Receiving Agents, will be sent at the risk of the person(s) entitled thereto;
 - (xvi) agree, on request by the Company or at its discretion on behalf of the Company, to disclose promptly in writing to it, any information which it may reasonably request in connection with your application and authorise it to disclose any information relating to your application as it considers appropriate; and
 - (xvii) confirm that you have read and understood the information and requirements contained in paragraph 2(c) dealing with the Money Laundering Regulations 1993.
- (e) No person receiving a copy of this document or an Application Form or Priority Application Form in any territory other than the UK may treat the same as constituting an invitation or offer to him, nor should he in any event use such Application Form or Priority Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to him or such Application Form or Priority Application Form be used without contravention of any registration or other legal requirements. It is the responsibility of any person outside the UK wishing to make an application hereunder to satisfy himself as to full observance of the laws of the relevant territory in connection therewith, including obtaining any requisite governmental or other consents which may be required, observing any other formalities required to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory.

- (f) The New Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933 (as amended) and, subject to certain exceptions (including, inter alia, qualified institutional buyers as defined in Rule 144A of that Act), the New Ordinary Shares may not be offered, sold, transferred or delivered, directly or indirectly, to the United States or to any US Person. Persons subscribing for New Ordinary Shares shall be deemed, and (unless the Company is satisfied that the New Ordinary Shares can be allotted without breach of the United States securities laws) shall be required, to represent and warrant to the Company that they are not a US Person and that they are not subscribing for such New Ordinary Shares for the account of any such person and will not offer, sell, renounce, transfer or deliver, directly or indirectly, such New Ordinary Shares in the United States or to any such persons. As used herein, "United States" means the United States of America (including the States thereof and the District of Columbia), its territories and possessions and "US Person" means any person or entity defined as such in Rule 902(0) under the Securities Act of 1933 and, without limiting the generality of the foregoing, US Person includes a natural person resident in the United States a corporation or partnership organised or incorporated under the laws of the United States (including any state thereof) and an estate or trust, if any executor, administrator or trustee is a US Person, but shall not include a branch or agency of a US Person located outside the United States if such agency or branch operates for valid business reasons and is engaged in the business of insurance or banking and is subject to substantive insurance or banking regulation, respectively, in the jurisdiction where located. The Company has not been and will not be registered under the United States Investment Company Act of 1940 (as amended).
- (g) The New Ordinary Shares have not been and will not be registered or qualified for sale or distribution under the securities laws of Canada and may only be offered or sold within Canada pursuant to certain exemptions under local securities laws.
- (h) The New Ordinary Shares have not been and will not be registered with the Australian Securities Commission.
- (i) The basis of allocation will be determined by the Directors as set out in the section headed "Placing and Offer" in Part II of this document. Dealings prior to the receipt of share certificates or the crediting of a CREST account will be at the risk of the applicants. A person so dealing must recognise the risk that an application may not have been accepted to the extent anticipated or at all.
- (j) Save where the context otherwise requires, words and expressions defined in this document have the same meaning when used in the Application Form or Priority Application Form and any other explanatory notes in relation thereto.

HOW TO COMPLETE THE APPLICATION FORM AND PRIORITY APPLICATION FORM

Before making any application to acquire New Ordinary Shares, you are recommended to consult an independent financial adviser authorised under the Financial Services Act 1986. The following instructions should be read in conjunction with the Application Form or Priority Application Form and the terms and conditions of application set out in this document.

Applications (including Priority Applications) under the Offer must be made for a minimum of 1,000 New Ordinary Shares and thereafter must be made in multiples of 100 New Ordinary Shares.

1. **Insert in Box 1 (in figures) the number of New Ordinary Shares for which you are applying.**
2. **Insert in Box 2 (in figures) the amount of your cheque or banker's draft.**
3. **Insert your full name and address in BLOCK CAPITALS in Box 3.**
4. **Insert your registration details (if different from the details provided in Box 3) in Box 4.**
5. **Insert your Participant ID No. and Member Account ID No. (if any) in Box 5 if you wish to hold the New Ordinary Shares in uncertificated form.**
6. **Sign and date the Application Form or Priority Application Form in Box 6.**

The Application Form or Priority Application Form may be signed by another person on your behalf (and / or on behalf of any joint applicants(s)) if that person is duly authorised to do so, but the power(s) of attorney (or (a) copy(ies) thereof duly certified by a solicitor) or form(s) of authority must be enclosed for inspection. A corporation should sign under the hand of a duly authorised officer whose representative capacity must be stated.
7. **You must pin a single cheque or banker's draft to your completed Application Form or Priority Application Form. Your cheque or banker's draft must be payable to "The Royal Bank of Scotland plc A/C Zytronic" —for the amount payable on application (inserted in Box 2) and should be crossed "A/c payee only".**

A separate cheque or banker's draft must accompany each application. No other method of payment is acceptable. No receipt will be issued for this payment.

Your cheque or banker's draft must be drawn in Pounds Sterling and bear a UK bank sorting code in the top right-hand corner.

An application may be accompanied by a cheque drawn by a person other than the applicant(s), but monies to be returned will be sent by crossed cheque in favour of the person named in Box 3.
8. **You may apply jointly with up to three persons.**

You must then arrange for the Application Form or Priority Application Form to be completed by or on behalf of each joint applicant. Their full names and addresses should be inserted in BLOCK CAPITALS in Box 8.
9. **Box 9 must signed by or on behalf of each joint applicant (other than the first applicant who should complete Box 3 and sign Box 6).**
10. **If an Application Form or Priority Application Form is delivered by hand by you in person, you should ensure that you have evidence of your identity bearing a photograph (for example full valid passport) and evidence of your address.**
11. **EIS Relief—Applicants' subscriptions for New Ordinary Shares may qualify for EIS relief. Eligible investors who wish their subscriptions for New Ordinary Shares to qualify for EIS relief should tick Box 10 on the Application Form or Priority Application Form. Applicants should note that qualification for relief is not guaranteed.**

PART VI

ZYTRONIC PLC

OFFER FOR SUBSCRIPTION APPLICATION FORM

IMPORTANT: Before completing this Form you should read the Prospectus of Zytronic dated 8 June 2000. Boxes 1, 2, 3 and 6 must be completed by all applicants. Boxes 4 and 5 should be completed if relevant. Your remittance must be pinned at Box 7. Boxes 8 and 9 must also be completed in the case of joint applicants. Box 10 should be completed by applicants wishing to apply for EIS relief. Applications must be for a minimum of 1,000 New Ordinary Shares. Applications must be made thereafter in multiples of 100 New Ordinary Shares.

PLEASE RETURN YOUR COMPLETED APPLICATION FORM BY POST TO COMPUTERSHARE SERVICES PLC, PO BOX 859, THE PAVILIONS, BRIDGWATER ROAD, BRISTOL BS99 1XZ OR DELIVER IT BY HAND ONLY TO: COMPUTERSHARE SERVICES PLC, 7th FLOOR, JUPITER HOUSE, TRITON COURT, 14 FINSBURY SQUARE, LONDON EC2A 1BR.

IN EACH CASE, IT MUST ARRIVE NOT LATER THAN 3.00 p.m. on 3 July 2000 (unless the Offer is closed earlier or extended by Brewin Dolphin Securities and the Directors).

I/We irrevocably offer to subscribe for		New Ordinary Shares at 110p each	1
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in Zytronic plc (or any smaller number of New Ordinary Shares for which this application is accepted) on the terms and subject to the conditions set out in the Prospectus dated 8 June 2000 and the Memorandum and Articles of Association of the Company.

and I/we attach a cheque or banker's draft namely made payable to "The Royal Bank of Scotland plc A/C Zytronic" and crossed "A/C payee only" for the amount payable	£		2
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PLEASE USE BLOCK CAPITALS

Mr/Mrs/Miss/Ms or Title		Surname		3
Forename(s) in full				
Address (in full)				
			Postcode	

REGISTRATION DETAILS (IF DIFFERENT FROM BOX 3 ABOVE)

Mr/Mrs/Miss/Ms or Title		Surname		4
Forename(s) in full				
Address (in full)				
			Postcode	

FOR CREST SETTLEMENT ONLY (IF RELEVANT)

Participant ID No.		6
Member Account ID No. (if any)		

Date	2000	Signature		6
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Pin your cheque or banker's draft for the amount shown in Box 2 made payable to "The Royal Bank of Scotland plc A/C Zytronic" and crossed "A/C payee only"	7
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Boxes 8 and 9 must be completed in the case of joint applicants only

2nd Applicant to complete		3rd Applicant to complete		4th Applicant to complete		8
Mr/Mrs/Miss/Ms or Title		Mr/Mrs/Miss/Ms or Title		Mr/Mrs/Miss/Ms or Title		
Surname		Surname		Surname		
Forename(s) in full		Forename(s) in full		Forename(s) in full		
Address in full		Address in full		Address in full		
Postcode		Postcode		Postcode		9
Signature		Signature		Signature		

Tick Box for EIS relief		10
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