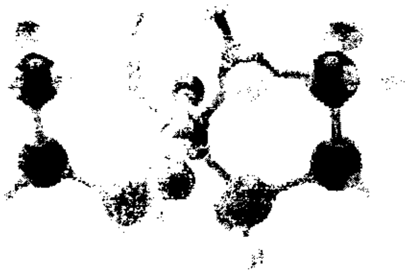
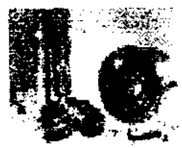
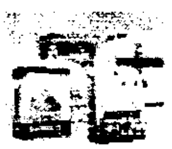
Company Number: 5029521

Polaron plc

Report & Financial Statements 2004

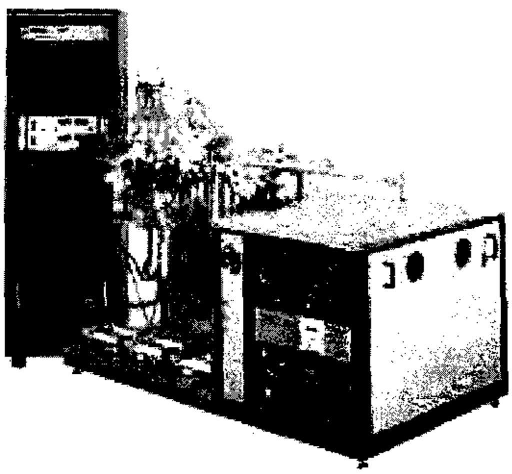






Polaron

- 1 nanometre = one thousandth millionth of a metre
- One grain of sugar is approx. 100,000 – 1,000,000 nanometres
- A human hair is typically about 80,000 nanometres in diameter
- Red blood cells are about 10,000 nanometres in diameter
- Viruses are variable in shape, but are roughly in the order of 1,000 nanometres in size
- The smallest component on a computer microprocessor chip is about 100 nanometres across
- There are about 4 atoms to 1 nanometre



The 3D atom probe allows microscopic analysis on an atomic scale

contents

chairman's statement

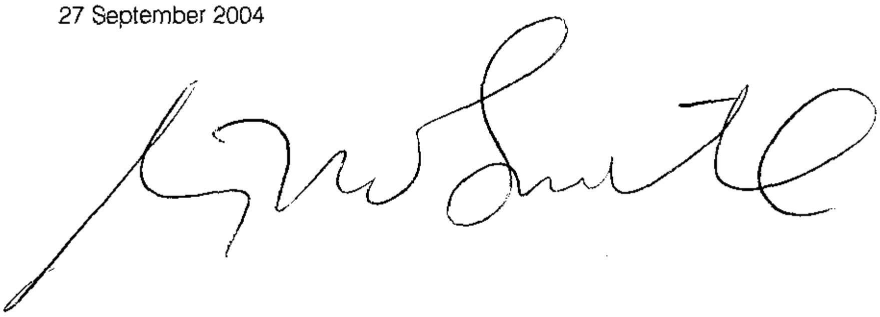
I am delighted with the progress which Polaron has made since its listing on AIM in March this year. This important milestone in the Company's development provided the catalyst for further investment in the Company and has allowed us to focus on fully exploiting the potential of the 3D Atom Probe in the growing nanotechnology market, while continuing to develop across the whole business.

Strengthened by the listing, we have secured bigger projects across the Group, including significant contracts for the Control Systems and Components Divisions. Equally, our stated strategy of growth organically and through acquisition has seen the addition of iLight Group to the Control Systems Division, acquired after the year end.

Our mission remains to become a significant player in the emerging nanotechnology market with our 3D Atom Probe instrument whilst at the same time maximising the business potential in our three other Divisions organically or via selective acquisition. This combination gives us, even as a relatively small Company, an exciting opportunity to be part of an industrial revolution that we believe will ultimately affect almost every manufacturing process.

The development of the Group as a whole, and the pipeline for the Nanotechnology Division, give me great confidence in the Company's future growth prospects. I would like to thank all my colleagues at Polaron, its advisers and, of course, our new shareholders for their support and encouragement during this new period of Company growth.

Professor George Smith
Non-executive Chairman
27 September 2004



chief executive's statement

Introduction

During this past financial year, Polaron has successfully listed on the Alternative Investment Market, raising £2.5m for the Company. The rationale for the listing was primarily to enhance the Company's profile, allow further investment in the businesses, and, in particular, drive nanotechnology sales opportunities. Together, these steps would allow Polaron to confirm its leadership in the Atom Probe market, as well as continuing to develop the businesses across the whole Group, both organically and through acquisition. At the same time the Company took the opportunity to acquire the balance of the issued share capital of each of Oxford Nanoscience Limited, Marata Group Limited and Polaron Communications Limited which it did not already own.

I am pleased to be able to report that, as a result of the renewed investment in the Group and the focus on its strategic development, operational performance has improved significantly beyond both that of last year and our initial internal forecasts for the year.

Financial performance

Turnover for the year rose 12% to £13.39m (2003: £11.91m), including our share of joint venture turnover. Gross profit increased by 7% to £5.42m (2003: £5.07m) with corresponding gross margin of 42% (2003: 44%). The minor reduction in gross margin was largely attributable to the effect of reduced margins within the Controls Division, in respect of a large one-off project. There were exceptional costs amounting to £214,100 during the year which were incurred as a result of our AIM flotation.

Profit before tax, exceptional items and goodwill amortisation increased by over 63% to £1.07m (2003: £0.65m). This improvement was as a result of the Company maintaining tight control of its overheads, in addition to improved efficiencies in manufacturing operations, control of general overheads and the benefit of recent currency movements.

At the end of the year, the net asset value of the Group (excluding goodwill) had more than doubled to £5.49m (2003: £2.63m). Basic earnings per share adjusted for exceptional items and goodwill were 6.8p (2003: 4.3p). A final dividend of 0.25p per share (equivalent to 1p per share on an annualised basis) will be recommended. Cash balances at the year end stood at £0.92m.

Trading

Nanotechnology

Turnover for the year increased to £2.12m (2003: £2.02m). Oxford Nanoscience became part of the Group in October 2002 and between then and June 2004 had received five Atom Probe orders, of which four have been shipped. During the year, Atom Probe machines were sold to key Japanese customers thereby strengthening our market leading base in Asia. Gross margin improved to 30% (2003: 29%) as a result of tighter controls in the purchasing of key components. The Division has installed an Atom Probe at its Milton Keynes facility, thereby allowing potential customers to run test samples prior to system purchase and to provide operator training.

Further Atom Probe orders which have been received since the year end are in line with our expectations, and our increased marketing drive, following the Company's listing, has resulted in strong growth of our potential prospect list, particularly in Japan and China. There has also been additional interest from the metals sector as a result of the higher price of steel and corresponding uplift in profits from steel companies.

chief executive's statement
continued

Whilst, as with most growing technology based businesses, sales lead times remain difficult to predict with any precision, there is encouraging progress, in respect of the recognition and adoption of Atom Probe microscopy as a tool for characterising atomic structure. This is evidenced by an increase in the number of scientific conferences featuring papers and keynote speeches by academics involved in the field. At the recent International Field Emission Symposium in Graz, Austria, the best poster prize was awarded to Dr Takahashi of Nippon Steel who used a Polaron Atom Probe in his research. We continue to benefit from our Chairman's pre-eminence in this domain which has recently been acknowledged with the award of the 2005 Acta Materialia Gold Medal in recognition of his valuable research contributions and leadership in materials science.

Our relationship with Imperial College continues to progress in respect of our investment into EPIIC, a spinout that has developed IMOS™, a novel technique for the integration of opto-electronic components using a Gallium Arsenide material system. The business is currently involved in early stage development of the manufacturing process with the aid of a government funded SMART award. If proven, this process will offer significant cost savings in the *manufacture of products such as 10Gigabit Ethernet transceivers.*

Controls Division

The majority of Polaron's turnover growth is attributable to a strong performance in the Controls Division, where turnover rose by over 31% to £5.5m (2003: £4.18m). Gross margin fell to 38% (2003: 42%) as a result of a single *large contract at a lower margin than is traditionally earned and the consolidation of Marata, a distributor of residential* lighting controls. During the year, Marata built an increasing presence in the residential lighting controls market. Furthermore, the Division was awarded a significant contract worth approximately £1.0m, providing a site-wide lighting control system for the 850,000 sq m, 300 room Conference Palace Hotel in Abu Dhabi. This project was won largely as a result of the high quality performance of our new range of transistor-based lighting controllers.

In terms of future development, we believe that there remain plenty of opportunities for new projects both in China and the United Arab Emirates, which are witnessing strong growth in hotels and high grade office buildings. Our newly expanded product range will enable us to compete more effectively in these and other markets.

Since the year end, the Division has been strengthened by the acquisition of iLight Group, a manufacturer of architectural lighting control products, lighting control desks and theatrical lighting control products, for a total consideration of £1.7m, split as £1.0m cash and £700,000 in Polaron shares. iLight will broaden the Division's product portfolio and increase its share of the UK residential and entertainment markets. iLight Group's turnover for its most recent financial year, the year ended April 2004, was £5.7m. The process of restructuring the combined businesses has already begun and will be complete by the end of Polaron's current financial year. Following completion of the restructuring, we expect the acquisition to be earnings enhancing.

Components Division

Turnover was slightly ahead of the previous year at £4.08m (2003: £4.04m). Gross margin in the Components Division was broadly maintained at 46% (2003: 47%) in spite of the delay to the next tranche of refurbishment works from London Underground (via Metronet), a key customer. The Division's level of gross margin was maintained due to its continuing to outsource, where possible, product manufacturing in the Far East, and to concentrate UK manufacturing on defence and aerospace related products, which are traditionally higher margin areas.

During the year, the Components Division signed an agreement with Metronet Rail to refurbish the inter-lock door systems on all trains on the Circle and Hammersmith & City Lines of the London Underground, worth approximately £1.0m.

Initial sensor products were supplied to the Stingray torpedo programme, having passed first article inspection by the Ministry of Defence by year end. This contract, which is worth in excess of £1.0m over its life, is expected to last for the next 5 years with regular monthly shipments.

One of the principal reasons for Polaron's flotation was to use our status as a quoted company to attract high calibre staff and strengthen our management team with strategic appointments. I am pleased to report the first such recruitment of Wayne Bishop as managing Director of the Components Division. Having had over 15 years' experience in the pressure sensor industry, previously as head of UK sales for GE Druck, he is now spearheading a review of the Division's sales and product strategy both in terms of organic growth and potential acquisitions.

Software Division

Turnover remained constant against the prior year at £1.68m (2003: £1.67m) and gross margin improved to 51% (2003: 49%), as a result of better control of raw material costs. The release schedule of products has managed to maintain a competitive edge and despite a relatively depressed end-market, the Division has managed to increase its share of its main vertical segments and retain its status as the leading vendor in the home/garden design and music software segments.

Key products introduced during the year include a Driving Test Theory programme in conjunction with The British School of Motoring and new versions of our best selling Audio Cleaning Labs and MP3 Maker Titanium. There is a strong pipeline of new product releases coming from our partners Magix and Punch Software, which continues throughout the current year.

While our main sales outlet remains through Dixons Stores Group (PC World), and other channels such as Amazon continue to provide a continual demand, efforts are being made to increase direct sales via our website www.fasttrak.co.uk.

Outlook

I view the future prospects of Polaron with confidence and believe that the Group's mixture of leading edge nanotechnology and a stable but growing core of cash generative, niche market technology products offers an exciting opportunity to build a substantial business.

Joe Stelzer
Chief Executive Officer
27 September 2004

corporate governance statement

The Directors recognise the value of the Principles of Good Governance and Code of Best Practice (the "Combined Code") and they will take appropriate measures, on a voluntary basis, to ensure that the Group complies with the Combined Code as appropriate for a group of its size.

Going concern
The Directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future, and for this reason the financial statements continue to be prepared on the going concern basis.

Directors
The Board currently consists of two executive Directors and two Non-executive Directors. The Board meets on a monthly basis and is supplied with management accounts and other relevant information.

Internal financial control
The Board is responsible for ensuring that the Group maintains a system of internal financial controls, including suitable monitoring procedures. The objective of the system is to safeguard Group assets, ensure proper accounting records are maintained and that the financial information used within the business and for publication is reliable. However, such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss.

Internal financial control monitoring procedures undertaken by the Board include the review of monthly financial reports and monitoring of performance and the prior approval of all significant expenditure.

Audit committee
The audit committee consists of two Non-executive Directors: William David and Professor George Smith. The committee considers matters relating to the financial accounting controls, the reporting of results, the effectiveness and cost of the audit.

It meets at least once a year with the Group's Auditors.

Remuneration committee
The Remuneration committee comprises of two Non-executive Directors: William David and Professor George Smith. The terms of reference of the committee are that it makes recommendations to the Board on the framework of executive remuneration and its costs.

The policy of the committee is set out in the Remuneration Report.

remuneration report

Remuneration committee

The Remuneration committee comprises the Non-executive Directors, William David (Chairman) and Professor George Smith. The committee meets as and when remuneration issues arise.

Remuneration policy

The policy of the Group is to set levels of remuneration to attract, retain and motivate executives of high calibre. The committee recognises the need to create remuneration packages that reward an individual's contribution to the Group's overall performance.

Service contracts

Service contracts for Joe Stelzer and Jonathan Clough are terminable by twelve and six months' notice respectively.

The Non-executive Directors are engaged on letters of appointment. Professor George Smith joined the Board on 3 March 2004 and was appointed Non-executive Chairman for an initial period of twelve months from 25 March 2004 and thereafter subject to three months' notice. The appointment of William David is subject to twelve months' notice.

Directors' remuneration

The emoluments of the individual Directors for the year ended 30 June 2004 were as follows:

	Basic salary and fees 2004 £	Bonus 2004 £	Benefits in kind 2004 £	Compensation for loss of office 2004 £	**Total 2004 £**	Total 2003 £
Joe Stelzer	122,553	50,000	21,315	—	**193,868**	125,672
Dr Isidore Stelzer	75,000	—	2,375	200,000	**277,375**	246,272
Jonathan Clough	27,500	10,000	266	—	**37,766**	—
Professor George Smith	7,500	—	—	—	**7,500**	—
William David	8,333	—	—	—	**8,333**	—
	240,886	60,000	23,956	200,000	**524,842**	371,944

The Company made contributions of £946 on behalf of Jonathan Clough to a personal pension scheme during the year.

The share options of the Directors under the Enterprise Management Incentive Scheme are set out below:

	1 July 2003 Number	**Awarded 2004 Number**	**30 June 2004 Number**	Exercise price	Date from which exercisable	Expiry date
Jonathan Clough	—	**16,667**	**16,667**	150p	31/3/05	31/3/14

The market price of the shares at 30 June 2004 was 157p and the range during the financial year was 150p to 165p.

On behalf of the Board

William David

Chairman, Remuneration Committee

27 September 2004

report of the directors

for the year ended 30 June 2004

The Directors present their report together with the audited financial statements for the year ended 30 June 2004.

Corporate restructuring

During the year the Group carried out a corporate restructuring including the introduction of Polaron plc as the new holding Company.

The Company was incorporated as Tonepress Plc on 29 January 2004 and changed its name to Polaron plc on 4 March 2004. On 16 March 2004, Polaron plc acquired the entire issued share capital of Polaron Engineering Limited in exchange for the issue of shares on the basis of 10,000 ordinary shares of 10 pence each for every 1 share of Polaron Engineering Limited acquired.

Results and dividends

The results of the Group for the year are set out on page 13 and show the profit for the year. These results and the comparatives are the combined results of Polaron plc and the Polaron Engineering Limited Group and have been prepared under the merger accounting method as described in note 1 to the financial statements.

The Directors recommend the payment of a final dividend of 0.25p (2003: Nil p) per ordinary share. The interim dividend paid for the year was Nil p (2003: 7.22p) per share. Comparative figures for the previous year are adjusted for the restructuring described above.

Principal activities, review of business and future developments

Details of the Group's activities, a review of its operations and the outlook for the current financial year are included in the Chairman's and Chief Executive's Statements on pages 2 to 5.

The Company was admitted to the Alternative Investment Market of the London Stock Exchange on 31 March 2004.

Post balance sheet events

These are detailed in note 27 of the financial statements.

Charitable and political contributions

During the year the Group made donations of £780 (2003: £5,760) to various charities. The Group made no political contributions (2003: £Nil).

Substantial shareholders

At 24 September 2004, other than Directors whose shareholdings are detailed below, the Directors are aware of the following holdings of 3% or more of the Company's issued ordinary share capital:

	Number	% Holding
Dr Isidore Stelzer	1,176,041	8.8
R Kay	950,950	7.1
Clydesdale Bank (Head Office) Nominees Ltd	766,667	5.7
Chase Nominees Ltd	734,560	5.5
HSBC Global Custody Nominee (UK) Ltd	595,401	4.4
Mellon Nominees (UK) Ltd	477,203	3.6
Waterhouse Nominees Ltd	432,000	3.2

Policy on the payment of creditors

The Group's normal terms of payment are between 30 and 60 days. The Group does not follow a code or standard on payment practice. Average creditor days in respect of year end trade creditors were 45 days (2003: 51 days).

Directors

The Directors of the Company during the year and the beneficial interests of the Directors at 30 June 2004 in the ordinary share capital of the Company and options to purchase such shares under the Enterprise Management Incentive Scheme were as follows:

					Ordinary shares of 10p each	
	Date of appointment	Date of resignation	**30 June 2004 Options**	**30 June 2004 Shares**	1 July 2003 Options	1 July 2003 Shares
SDG Registrars Ltd	29/1/04	31/1/04	**n/a**	**n/a**	n/a	n/a
Joe Stelzer	31/1/04	—	**—**	**2,932,930**	—	2,930,000
Jonathan Clough	31/1/04	—	**16,667**	**—**	—	—
Dr Isidore Stelzer	25/2/04	25/3/04	**n/a**	**n/a**	n/a	n/a
Professor George Smith	3/3/04	—	**—**	**485,714**	—	—
William David	4/3/04	—	**—**	**5,000**	—	—

The number of shares held at the start of the year are adjusted for the subdivision of shares on 25 February 2004 detailed in note 19 of the financial statements and for the restructuring described in note 19.

The interests of Professor George Smith include shares held by his wife, Mrs J Smith. There were no changes in Directors' interests between 1 July 2004 and 27 September 2004.

Auditors

BDO Stoy Hayward LLP were appointed as Auditors during the period. A resolution to reappoint BDO Stoy Hayward LLP as Auditors will be proposed at the next annual general meeting.

Annual General Meeting

Three resolutions are proposed as Special Business at the forthcoming Annual General Meeting. Explanations of these resolutions are set out below.

Explanation of Resolution 5

Under the Companies Act the Directors are prohibited from allotting relevant securities of the Company without prior authorisation to do so. The effect of Resolution 5 is to give the Directors authority to allot relevant securities up to an aggregate nominal amount of £660,121 until the earlier of the date which is fifteen months after the passing of Resolution 5 or the conclusion of the 2005 Annual General Meeting.

Explanation of Resolution 6

The Companies Act provides that, unless shareholders otherwise consent, all new equity securities to be allotted or equity securities held as treasury shares to be sold must first be offered to existing shareholders in proportion to their individual holdings. Resolution 6 gives the Directors power to allot shares for cash and/or sell equity securities held as treasury shares as though the rights of pre-emption conferred by section 89(1) of the Act did not apply:

(a) in respect of the whole of the authorised but unissued share capital in connection with an offer to existing shareholders (to allow the Directors to take action to overcome certain practical difficulties which could arise in the case of such an offer);

(b) in respect of the grant of options over and issue of shares pursuant to the exercise of such options representing up to 7.5% of the issued share capital of the Company from time to time under the EMI Scheme; and

(c) up to a nominal amount of £66,993.95, being 5% of the current issued share capital of the Company (to give the Directors some flexibility in financing business opportunities as they arise).

This power would expire on the earlier of the date which is fifteen months after the passing of Resolution 6 or the conclusion of the 2005 Annual General Meeting.

report of the directors
for the year ended 30 June 2004 continued

Explanation of Resolution 7

In certain circumstances it may be advantageous for the Company to purchase its own shares. Resolution 7 seeks authority from the shareholders to do so, such authority to expire on the earlier of the date which is fifteen months after the passing of Resolution 7 or at the conclusion of the 2005 Annual General Meeting. The Directors intend to use this authority only if and when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase earnings per share and is in the best interest of the shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account before deciding upon this course of action.

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations came into force on 1 December 2003 and the Companies (Acquisition of Own Shares) (Treasury Shares) No.2 Regulations 2003 on 18 December 2003 (together, the "Regulations"). The Regulations enable companies to retain any of their own shares they have purchased as treasury stock with a view to possible re-issue at a future date, rather than cancelling them in accordance with current legislation. The Company would consider holding any of its own shares that it purchases pursuant to the authority conferred by Resolution 7 as treasury stock. This would give the Company the ability to re-issue treasury shares quickly and
cost-effectively, and would provide the Company with additional flexibility in the management of its capital base. The Company did not hold any ordinary shares as treasury stock as at 27 September 2004.

Resolution 7 specifies the maximum number of shares that may be acquired (being 10% of the number of ordinary shares in issue as at 27 September 2004) and the maximum and minimum prices at which they may be bought.

As at 27 September 2004 there were outstanding options to subscribe for an aggregate number of 491,533 ordinary shares in the Company which would, if exercised, represent approximately 3.7% of the Company's existing share capital and would represent approximately 4.1% of such issued share capital if the authority to purchase ordinary shares conferred by Resolution 7 were to be exercised in full.

By order of the Board

J. Clough

Jonathan Clough
Secretary
27 September 2004

statement of directors' responsibilities

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

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

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

report of the independent auditors

to the shareholders of Polaron plc

We have audited the financial statements of Polaron plc for the year ended 30 June 2004 on pages 13 to 38 which have been prepared under the accounting policies set out on pages 18 to 21.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the statement of Directors' responsibilities.

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

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

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement, the Chief Executive's Statement, the Remuneration Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and Company at 30 June 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward L.L.P.

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
Hatfield
27 September 2004

consolidated profit and loss account

for the year ended 30 June 2004

	Note	Continuing operations 2004 £	Acquisition 2004 £	Total 2004 £	Total 2003 £
Turnover: Group and share of joint venture		13,090,006	297,395	**13,387,401**	11,910,898
Less: Share of joint venture turnover		(485,086)	—	**(485,086)**	(294,009)
Group turnover	2	12,604,920	297,395	**12,902,315**	11,616,889
Cost of sales		7,278,701	198,960	**7,477,661**	6,544,722
Gross profit		5,326,219	98,435	**5,424,654**	5,072,167
Distribution expenses		593,861	—	**593,861**	610,049
Administrative expenses (including exceptional items of £214,100 (2003: £Nil))	3	3,944,242	79,445	**4,023,687**	3,757,971
		788,116	18,990	**807,106**	704,147
Other operating income		999	—	**999**	—
Group operating profit	3	789,115	18,990	**808,105**	704,147
Share of operating profit in:					
– joint venture		9,854	—	**9,854**	16,370
Profit on ordinary activities before interest and other income		798,969	18,990	**817,959**	720,517
Interest receivable					
– Group				**4,072**	9,099
– joint venture				—	360
Interest payable and similar charges					
– Group	6			**(64,662)**	(99,505)
– joint venture				—	(15)
Profit on ordinary activities before taxation				**757,369**	630,456
Taxation on profit from ordinary activities	7			**264,023**	201,647
Profit on ordinary activities after taxation				**493,346**	428,809
Minority interest				**(2,498)**	(27,222)
Profit for the financial year				**490,848**	401,587
Dividends	8			**33,497**	717,651
Retained profit/(deficit)	20			**457,351**	(316,064)
Earnings per share	9				
Basic				**4.5p**	4.0p
Basic – adjusted for exceptional items and goodwill amortisation				**6.8p**	4.3p
Diluted				**4.5p**	4.0p

A Consolidated Profit and Loss Account from the date of incorporation of the new holding Company is given in note 32 on page 38.

The notes on pages 18 to 38 form part of these financial statements.

consolidated statement of total recognised gains and losses

for the year ended 30 June 2004

	2004	2003
	£	£
Profit for the financial year		
- Group	**480,994**	384,112
- joint venture	**9,854**	17,475
	490,848	401,587
Unrealised surplus on revaluation of properties (Group)	**—**	500,000
Total recognised gains and losses for the year	**490,848**	901,587

note of historical cost profits and losses

for the year ended 30 June 2004

	Note	2004	2003
		£	£
Reported profit on ordinary activities before taxation	2	**757,369**	630,456
Difference between actual and historical cost depreciation		**22,040**	—
Historical cost profit on ordinary activities before taxation		**779,409**	630,456
Retained historical cost profit for the year after taxation, *minority interest and dividends*		**479,391**	*(316,064)*

The notes on pages 18 to 38 form part of these financial statements.

consolidated balance sheet

at 30 June 2004

	Note	2004 £	2004 £	2003 £	2003 £
Fixed assets					
Intangible assets	11		**2,254,233**		167,177
Tangible assets	12		**2,674,953**		2,544,959
Investments in joint venture					
– share of gross assets		—		105,734	
– share of gross liabilities		—		(88,159)	
		—		17,575	
Other investments		**501**		—	
Fixed asset investments	13		**501**		17,575
			4,929,687		2,729,711
Current assets					
Stocks	14	**1,636,922**		1,301,212	
Debtors	15	**3,401,111**		3,240,533	
Cash at bank and in hand		**916,609**		300,416	
		5,954,642		4,842,161	
Creditors: amounts falling due within one year	16	**2,892,976**		3,803,306	
Net current assets			**3,061,666**		1,038,855
Total assets less current liabilities			**7,991,353**		3,768,566
Creditors: amounts falling due after more than one year	16	**206,807**		851,461	
Provision for liabilities and charges	18	**106,095**		154,385	
			312,902		1,005,846
			7,678,451		2,762,720
Capital and reserves					
Called up share capital	19		**1,339,879**		994,000
Shares to be issued	11		**72,321**		—
Share premium account	20		**4,067,466**		—
Revaluation reserve	20		**1,465,075**		1,465,075
Profit and loss account	20		**1,054,922**		597,571
Other reserves	20		**14**		14
Merger capital reserve	20		**(321,226)**		(321,226)
Shareholders' funds (equity)	21		**7,678,451**		2,735,434
Minority interests (equity)			—		27,286
			7,678,451		2,762,720

The notes on pages 18 to 38 form part of these financial statements.

The financial statements were approved by the Board on 27 September 2004.

Joe Stelzer
Director

company balance sheet

at 30 june 2004

	Note	2004 £	2004 £
Fixed assets			
Intangible assets	11		26,057
Tangible assets	12		843,068
Fixed asset investments	13		2,580,958
			3,450,083
Current assets			
Debtors	15	3,348,562	
Cash at bank and in hand		467,245	
		3,815,807	
Creditors: amounts falling due within one year	16	1,478,771	
Net current assets			2,337,036
Total assets less current liabilities			5,787,119
Creditors: amounts falling due after more than one year	16		190,151
Provision for liabilities and charges	18		71,062
			5,525,906
Capital and reserves			
Called up share capital	19		1,339,879
Shares to be issued	11		72,321
Share premium account	20		4,067,466
Profit and loss account	20		46,240
Shareholders' funds (equity)			5,525,906

The notes on pages 18 to 38 form part of these financial statements.

The financial statements were approved by the Board on 27 September 2004.

Joe Stelzer
Director

consolidated cash flow statement

for the year ended 30 June 2004

	Note	2004 £	2004 £	2003 £	2003 £
Net cash inflow from operating activities	28		992,100		321,115
Returns on investments and servicing of finance					
Interest received		4,072		9,099	
Interest paid: other		(39,153)		(70,787)	
Interest paid: hire purchase		(25,509)		(28,718)	
Dividends received from joint venture company		36,345		—	
Net cash outflow from returns on investment and servicing of finance			(24,245)		(90,406)
Taxation					
Corporation tax			(280,925)		(60,057)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(236,451)		(82,658)	
Payments to acquire intangible fixed assets		(47,535)		—	
Payments to acquire fixed asset investments		(501)		(100)	
Receipts from sale of tangible fixed assets		—		299,625	
Net cash (outflow)/inflow from capital expenditure and financial investment			(284,487)		216,867
Acquisitions and disposals					
Purchase of business operations and minority interests in subsidiary companies		(367,725)		(259,753)	
Net overdrafts acquired with subsidiary company	23	(34,653)		—	
Net cash outflow from acquisitions and disposals			(402,378)		(259,753)
Equity dividends paid			(616,263)		(101,388)
Cash (outflow)/inflow before use of liquid resources and financing			(616,198)		26,378
Management of liquid resources					
Increase in short term deposits			(200,000)		—
Financing					
New loans		—		200,000	
Loans repaid		(639,473)		(197,629)	
Issue of shares (net of share issue costs)		2,563,342		—	
Capital element of finance leases repaid		(161,325)		(170,152)	
Net cash inflow/(outflow) from financing			1,762,544		(167,781)
Increase/(decrease) in cash	30		946,346		(141,403)

notes to the financial statements

for the year ended 30 June 2004

1 Accounting policies

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, and are in accordance with applicable accounting standards.

In preparing these financial statements the Group has adopted UITF Abstract 17 (Revised 2003) 'Employee Share Schemes'. There has been no effect on the results of the current and preceding year as a consequence of adopting Application Note G to FRS 5.

The principal accounting policies are:

Basis of preparation

During the period the Group carried out a corporate restructuring including the introduction of a new holding company. The Profit and Loss Account has been prepared using merger accounting and is presented on a pro forma basis as if the new holding company had been in existence throughout both the current and prior periods.

Basis of consolidation

The consolidated financial statements incorporate the results of Polaron plc and all of its subsidiary undertakings as at 30 June 2004 using the acquisition method of accounting except in relation to the investment in Polaron Engineering Limited for which the merger method of accounting has been used.

Merger accounting

Where merger accounting is used, the investment is recorded in the Company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration paid. In the Group financial statements, merged subsidiary undertakings are treated as if they had always been a member of the Group. The results of such a subsidiary are included for the whole period in the year it joins the Group. The corresponding figures for the previous year include its results for that period, the assets and liabilities at the previous balance sheet date and the shares issued by the Company as consideration as if they had always been in issue. Any difference between the nominal value of the shares acquired by the Company and those issued by the Company to acquire them is taken to reserves.

Acquisition accounting

The results of the subsidiary undertakings of Polaron Engineering Limited are incorporated using the acquisition method of accounting. The results of subsidiary undertakings are included from the date of acquisition.

Goodwill

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. It is capitalised and amortised through the Profit and Loss Account over the Directors' estimate of its useful economic life. Impairment tests on the carrying value of goodwill are undertaken:

- at the end of the first full financial year following acquisition;
- in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Other intangible fixed assets

Other intangible fixed assets represent intellectual property rights and capitalised development expenditure. These are capitalised at cost and amortised over the Directors' estimate of their useful economic lives.

1 **Accounting policies** continued

Research and development

Expenditure on pure and applied research is charged to the Profit and Loss Account in the year in which it is incurred.

Development costs are also charged to the Profit and Loss Account in the year of expenditure, unless individual projects satisfy all of the following criteria:

- the project is clearly defined and related expenditure is separately identifiable;
- the project is technically feasible and commercially viable;
- current and future costs are expected to be exceeded by future sales; and
- adequate resources exist for the project to be completed.

Joint ventures

An entity is treated as a joint venture where the Group holds a long-term interest and shares control under a contractual arrangement.

In the Group accounts, interests in joint ventures are accounted for using the gross equity method of accounting. The Consolidated Profit and Loss Account indicates the Group's share of the joint venture's turnover and includes the Group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings based on audited financial statements. In the consolidated balance sheet, the Group's share of the identifiable gross assets (including any unamortised premium paid on acquisition) and its share of the gross liabilities attributable to its joint venture are shown separately.

Turnover

Turnover represents sales of goods or services to external customers at invoiced amounts less value added tax or local taxes on sales. In respect of contracts for the sale of goods, between 80% and 100% of contractual turnover is recognised at the time of delivery, depending upon the nature of the goods and the amount of any remaining commissioning work required after delivery. In respect of contracts for the installation of electronic systems, limited value is provided to customers until these systems are installed and working. Accordingly turnover in respect of such contracts is not recognised until the contracts are substantially complete.

Where sales invoices are raised in advance of turnover being recognised, such amounts are carried forward as deferred income.

Revaluation of land and buildings

FRS 15 requires fixed assets which are carried at revalued amounts to be shown at their current value at the balance sheet date. To achieve this freehold and long leasehold land and buildings are subject to a full valuation every five years with an interim valuation carried out in the third year of this cycle.

The profit or loss on disposal of revalued properties is calculated by reference to net book value and any realised revaluation surplus is transferred to the Profit and Loss Account through reserves.

Depreciation

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all tangible fixed assets evenly over their expected useful lives. It is calculated at the following rates:

Leasehold land and buildings	– over length of lease
Plant, machinery and vehicles	– 10% per annum, reducing balance (plant and machinery) 25% per annum reducing balance (vehicles)
Fixtures, fittings, tools and equipment	– 33% per annum straight line (computers) 10% per annum reducing balance (other assets)

notes to the financial statements

for the year ended 30 June 2004 continued

1 Accounting policies continued

Valuation of investments

Investments held as fixed assets are stated at cost less any provision for impairment in value. Investments held as current assets are stated at the lower of cost and market value.

Stocks

Stocks are valued at the lower of cost and net realisable value.

Raw materials	– cost of purchase on first in, first out basis
Work in progress and finished goods	– cost of raw materials and labour together with attributable overheads

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

Foreign currency

Foreign currency transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the Profit and Loss Account.

Financial instruments

In relation to the disclosures made in note 17:

- *short term debtors and creditors are not treated as financial assets or financial liabilities; and*
- the Group does not hold or issue derivative financial instruments for trading purposes.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that:

- deferred tax is not recognised on timing differences arising on revalued properties unless the Company has entered into a binding sale agreement and is not proposing to take advantage of rollover relief; and
- the recognition of deferred tax assets is limited to the extent that the Company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the Profit and Loss Account.

Lease payments are analysed between capital and interest components. The interest element of the payment is charged to the Profit and Loss Account over the period of the lease and is calculated so that it represents a constant proportion of the balances of capital repayments outstanding. The capital element reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the Profit and Loss Account on a straight line basis over the term of the lease.

1 Accounting policies continued

Pension costs

Contributions to the Group's defined contribution pension schemes are charged to the Profit and Loss Account in the year in which they become payable.

Share based employee remuneration

When shares and share options are awarded to employees a charge is made to the Profit and Loss Account based on the difference between the market value of the Company's shares at the date of grant and the option exercise price in accordance with UITF Abstract 17 (Revised 2003) 'Employee Share Schemes'. The credit entry for this charge is taken to the profit and loss reserve and reported in the reconciliation of movements in shareholders' funds.

Impairment of fixed assets and goodwill

The need for any fixed asset impairment write down is assessed by comparing the carrying value of the asset against the higher of its realisable value and value in use.

Liquid resources

For the purposes of the cash flow statement, liquid resources are defined as current asset investments and short term deposits.

2 Segmental analysis

	Turnover 2004 £	Turnover 2003 £	Pre-tax profit 2004 £	Pre-tax profit 2003 £	Net assets 2004 £	Net assets 2003 £
Analysis by class of business:						
Electronic equipment	11,710,642	10,253,121	680,718	578,296	7,487,999	2,643,219
Software republishing	1,676,759	1,657,777	76,651	52,160	190,452	119,501
	13,387,401	11,910,898	757,369	630,456	7,678,451	2,762,720
Joint venture	485,086	294,009	9,854	16,715	—	17,575
Group	12,902,315	11,616,889	747,515	613,741	7,678,451	2,745,145
	13,387,401	11,910,898	757,369	630,456	7,678,451	2,762,720

There is no analysis by origin as all activities are carried out in the United Kingdom.

	2004 £	2003 £
Turnover:		
By destination		
United Kingdom	7,968,736	7,470,109
USA & Europe	2,586,343	2,401,777
Rest of the world	2,832,322	2,039,012
	13,387,401	11,910,898
Joint venture	485,086	294,009
Group	12,902,315	11,616,889
	13,387,401	11,910,898

notes to the financial statements

for the year ended 30 June 2004 continued

3 Operating profit

		2004 £	2003 £
This is arrived at after charging:			
Research and development	– current year's expenditure	**26,301**	30,549
	– amortisation of capitalised expenditure	**3,488**	—
Depreciation of tangible fixed assets		**247,255**	187,374
Amortisation of positive goodwill		**94,438**	22,868
Amortisation of other intangible fixed assets		**9,715**	6,411
Hire of plant and machinery	– operating leases	**12,954**	26,995
Hire of other assets	– operating leases	**205,566**	176,850
Auditors' remuneration	– audit services (Company £44,000)	**44,000**	34,000
	– non-audit services	**214,454**	5,500
Exceptional item – compensation for loss of office (see below)		**200,000**	—
Exceptional item – merger costs (see below)		**14,100**	—

Pursuant to a compromise agreement dated 25 March 2004 between Dr Isidore Stelzer and a subsidiary, Dr Isidore Stelzer resigned as Chairman of that subsidiary and the Group, and was paid a sum of £200,000 on his resignation.

Professional fees of £14,100 were incurred during the year on a corporate restructuring which included the introduction of a new holding Company to the Group.

4 Employees

	2004 £	2003 £
Staff costs for all employees, including executive Directors, consist of:		
Wages and salaries	**3,719,820**	3,624,763
Social security costs	**379,652**	334,803
Pension costs	**51,185**	51,068
	4,150,657	4,010,634

The average number of employees of the Group during the year, including executive Directors, was as follows:

	Number	Number
Office and management	**29**	29
Production and sales	**121**	120
	150	149

5 Directors' remuneration

	2004 £	2003 £
Directors' emoluments	**324,842**	394,075
Company contributions to money purchase pension schemes	**946**	11,676
Compensation for loss of office (see note 3)	**200,000**	—

The emoluments of the highest paid Director amounted to £277,275 (2003: £246,272). There were no Directors in the Group's defined contribution pension schemes in the year (2003: none).

6 Interest payable and similar charges – Group

	2004 £	2003 £
Bank loans and overdrafts	**39,153**	63,762
Interest on finance leases and hire purchase contracts	**25,509**	28,718
Other interest payable	**—**	7,025
	64,662	99,505

7 Taxation on profit from ordinary activities

	2004 £	2003 £
UK corporation tax		
Current tax on profits of the year	**316,770**	184,877
Total current tax	**316,770**	184,877
Deferred tax		
Origination and reversal of timing differences	**(52,747)**	17,530
Share of joint venture tax charge	**—**	(760)
Taxation on profit on ordinary activities	**264,023**	201,647

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2004 £	2003 £
Profit on ordinary activities before tax	**757,369**	630,456
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2003: 30%)	**227,211**	189,137
Effects of:		
Expenses not deductible for tax purposes	**48,510**	29,828
Capital allowances for year in excess of depreciation	**8,660**	17,518
Utilisation of tax losses	**7,549**	(8,243)
Other differences arising on consolidation	**33,051**	(26,940)
Effect of differing rates of corporation tax	**(11,167)**	(11,408)
Profits attributable to joint venture	**2,956**	(5,015)
Current tax charge for year	**316,770**	184,877

No provision has been made for deferred tax on gains recognised on revaluing property to its market value or on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total unprovided amount is estimated at £372,800 (2003: £380,000). At present, it is not envisaged that any tax will become payable in the foreseeable future.

8 Dividends

	2004 £	2003 £
Ordinary dividends		
Interim paid of Nil p (2003: 1.02p) per share	**—**	101,388
Final proposed of 0.25p (2003: Nil p) per share	**33,497**	—
Interim dividends payable of Nil p (2003: 6.20p) per share	**—**	616,263
	33,497	717,651

9 Earnings per share

The basic and diluted earnings, being profit after tax and minority interest, are £490,848 (2003: £401,587). The adjusted earnings per share has been calculated to provide a better understanding of the underlying performance of the Group.

	2004 £	2003 £
Earnings used for calculation of basic and diluted EPS	**490,848**	401,587
Post-tax cost of exceptional items	**149,870**	—
Goodwill amortisation	**94,438**	22,868
Earnings used for calculation of adjusted EPS	**735,156**	424,455
	2004 Number	2003 Number
Basic weighted average number of shares	**10,805,830**	9,940,000
Employee share options	**23,079**	—
Deferred consideration for acquisition	**46,064**	—
Diluted weighted average number of shares	**10,874,973**	9,940,000
	Pence	Pence
Basic earnings per share	**4.5**	4.0
Basic earnings per share – adjusted for exceptional items and goodwill amortisation	**6.8**	4.3
Diluted earnings per share	**4.5**	4.0

The calculation of the weighted average number of shares has been made on the basis that the shares issued to acquire Polaron Engineering Limited were in existence throughout the current and prior year.

10 Profit for the financial year

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own Profit and Loss Account in these financial statements. The Group profit for the year includes a profit after tax and before dividends payable of £79,737 which is dealt with in the financial statements of the parent Company.

11 *Intangible assets*

	Goodwill on consolidation £	Other intangible fixed assets £	Total £
Group			
Cost			
At 1 July 2003	160,076	64,115	224,191
Additions	2,147,162	47,535	2,194,697
At 30 June 2004	**2,307,238**	**111,650**	**2,418,888**
Amortisation			
At 1 July 2003	25,368	31,646	57,014
Provision for year	94,438	13,203	107,641
At 30 June 2004	**119,806**	**44,849**	**164,655**
Net book value			
At 30 June 2004	**2,187,432**	**66,801**	**2,254,233**
At 30 June 2003	*134,708*	*32,469*	*167,177*

Additions to goodwill on consolidation arose as a result of the acquisition of the minority interests in Oxford Nanoscience Limited (25% acquired) and Polaron Communications Limited (49% acquired), and the acquisition of the shares held by the joint venture partner in Marata Group Limited (50% acquired – full details of the acquisition are shown in note 23).

11 Intangible assets continued

	Oxford Nanoscience Limited £	Polaron Communications Limited £	Marata Group Limited £	Total £
Purchase consideration				
– cash	100,001	215,000	8,270	323,271
– shares issued	1,700,000	25,000	125,000	1,850,000
– shares to be issued	—	72,321	—	72,321
Acquisition costs	31,896	6,555	6,003	44,454
Total costs of acquisition	1,831,897	318,876	139,273	2,290,046
Share of net assets acquired	(5,276)	(24,508)	(104,184)	(133,968)
Previously accounted as joint venture	—	—	(8,916)	(8,916)
Goodwill arising	1,826,621	294,368	26,173	2,147,162

There was no difference between the book value and the fair value of net assets acquired.

	Other intangible fixed assets £
Company	
Cost	
Transferred from subsidiary company on 30 June 2004	26,057
At 30 June 2004	**26,057**
Net book value	
At 30 June 2004	**26,057**

12 Tangible assets

	Long leasehold land and buildings £	Plant, machinery and vehicles £	Fixtures, fittings, tools and equipment £	Total £
Group				
Cost or valuation				
At 1 July 2003	1,500,000	1,503,975	318,118	3,322,093
Additions	—	283,425	98,192	381,617
Disposals	—	(15,644)	(21,140)	(36,784)
At 30 June 2004	**1,500,000**	**1,771,756**	**395,170**	**3,666,926**
Depreciation				
At 1 July 2003	—	621,627	155,507	777,134
Provision for year	24,000	168,479	54,776	247,255
Disposals	—	(11,276)	(21,140)	(32,416)
At 30 June 2004	**24,000**	**778,830**	**189,143**	**991,973**
Net book value				
At 30 June 2004	**1,476,000**	**992,926**	**206,027**	**2,674,953**
At 30 June 2003	1,500,000	882,348	162,611	2,544,959

notes to the financial statements

for the year ended 30 June 2004 continued

12 Tangible assets continued

Company	Plant, machinery and vehicles £	Fixtures, fittings, tools and equipment £	Total £
Cost or valuation			
Transferred from subsidiary company on 30 June 2004	676,915	166,153	843,068
At 30 June 2004	**676,915**	**166,153**	**843,068**
Net book value			
At 30 June 2004	**676,915**	**166,153**	**843,068**

The Group's long leasehold land and buildings were subject to a full revaluation by the Directors at existing use value on 30 June 2003, based on professional valuation advice received in December 2003 from Chesterton's Chartered Surveyors.

The historical cost of land and buildings is:

	Group 2004 £	Group 2003 £	Company 2004 £
Cost	**122,522**	122,522	—
Accumulated depreciation based on historical cost	**(1,960)**	—	—
Historical cost net book value	**120,562**	122,522	—
Commitments for capital expenditure			
Contracted but not provided for	**58,500**	—	**58,500**

The net book value and depreciation charge for the year in respect of tangible fixed assets held under finance leases and hire purchase contracts are as follows:

	Group 2004 £	Group 2003 £	Company 2004 £
Net book value			
Plant, machinery and vehicles	**485,977**	478,189	**285,280**
Depreciation charged			
Plant, machinery and vehicles	**108,763**	85,849	—

13 Fixed asset investments

Group	Joint venture £	Other investments £	Total £
Cost			
At 1 July 2003	100	—	100
Additions	—	501	501
Reclassification of joint venture to subsidiary	(100)	—	(100)
At 30 June 2004	**—**	**501**	**501**
Share of retained profits			
At 1 July 2003	17,475	—	17,475
Profit after tax for the period	9,854	—	9,854
Dividend received	(36,345)	—	(36,345)
Reclassification of joint venture to subsidiary	9,016	—	9,016
At 30 June 2004	**—**	**—**	**—**
Net book value			
At 30 June 2004	**—**	**501**	**501**
At 30 June 2003	17,575	—	17,575

Company	Group undertakings £	Group loans £	Total £
Cost			
Additions	994,000	1,922,321	2,916,321
Repayment of Group loans	—	(335,363)	(335,363)
At 30 June 2004	**994,000**	**1,586,958**	**2,580,958**
Net book value			
At 30 June 2004	**994,000**	**1,586,958**	**2,580,958**

Additions to investments in Group undertakings in the period represent the acquisition of 100% of the issued share capital of Polaron Engineering Limited as part of the Group re-organisation.

Additions to investments in Group loans in the period represent balances owed by Polaron Engineering Limited arising from the issue of shares by the Company to acquire interests in subsidiary companies of Polaron Engineering Limited, as disclosed in note 11.

notes to the financial statements

for the year ended 30 June 2004 continued

13 Fixed asset investments continued

Subsidiary undertakings

The principal wholly owned undertakings, all of which are incorporated in the UK, are as follows:

	Proportion of voting rights and ordinary share capital held	Nature of business
Subsidiary undertakings directly held		
Polaron Engineering Limited	100%	Provision of administrative services to Group companies
Subsidiary undertakings owned by Polaron Engineering Ltd		
Polaron Controls Limited	100%	Manufacture and distribution of electronic equipment, importation, supply, distribution and installation of sound and audio visual equipment
Polaron Components Limited	100%	Manufacture and distribution of pressure sensors electro-mechanical and mercury switches
FastTrak Software Publishing Limited	100%	Distribution of computer products
Polaron CVT Limited	100%	Design and manufacture of precision vacuum products
Polaron Schaevitz Limited	100%	Manufacture and distribution of pressure sensors
Polaron Entropics Limited	100%	Dormant
Oxford Nanoscience Limited	100%	Design and manufacture of precision vacuum products, position sensitive Atom Probes and related components
Polaron Communications Limited	100%	Supply and installation of sound and audiovisual equipment
Marata Group Limited	100%	Holding Company
Fotadvise (M.E.W.) Limited (100% owned by Marata Group Limited)	100%	Import and distribution of audio-visual equipment
Other investment held by Polaron Engineering Limited		
EPIIC Limited	20%	Development of a generic process technology for integrating optoelectronic components

Polaron Engineering Limited, Polaron CVT Limited, Polaron Schaevitz Limited, Polaron Communications Limited and Fotadvise (M.E.W.) Limited became dormant on 30 June 2004, following the transfer of their trading activities to other Group companies.

14 Stocks

	Group 2004 £	Group 2003 £	Company 2004 £
Raw materials	**693,194**	494,121	—
Work in progress	**733,708**	418,509	—
Finished goods and goods held for resale	**210,020**	388,582	—
	1,636,922	1,301,212	—

15 Debtors

	Group 2004 £	Group 2003 £	Company 2004 £
Trade debtors	3,015,188	2,530,816	—
Amounts due from subsidiary undertakings	—	—	3,044,364
Amounts due from joint ventures and associated undertakings	—	2,115	—
Prepayments and accrued income	50,916	121,656	50,916
Corporation tax	26,100	—	29,172
Other debtors	308,907	223,159	224,110
Directors' loan accounts	—	362,787	—
	3,401,111	3,240,533	3,348,562

16 Creditors

(a) Amounts falling due within one year

	Group 2004 £	Group 2003 £	Company 2004 £
Bank loans and overdrafts (secured)	97,754	663,434	97,591
Amounts due to subsidiary undertakings	—	—	800,793
Trade creditors	1,451,720	1,320,539	225,994
Tax and social security creditor	319,801	308,170	51,043
Dividends payable	33,497	616,263	33,497
Corporation tax	273,002	263,645	—
Obligations under finance leases and hire purchase contracts	139,534	141,193	90,998
Accruals and deferred income	452,462	455,472	162,936
Other creditors	125,206	34,590	15,919
	2,892,976	3,803,306	1,478,771

The bank loans and overdrafts are secured by a floating charge over the assets of the Group and the Company.

notes to the financial statements

for the year ended 30 June 2004 continued

16 **Creditors** continued

(b) Amounts falling due after more than one year

	Group 2004 £	Group 2003 £	Company 2004 £
Bank loans	—	603,946	—
Obligations under finance leases and hire purchase contracts	**206,807**	247,515	**190,151**
	206,807	851,461	**190,151**

Financial liabilities are due:

Group	Loans and overdrafts 2004 £	Loans and overdrafts 2003 £	Finance leases 2004 £	Finance leases 2003 £	Total 2004 £	Total 2003 £
– in one year or less	**97,754**	663,434	**139,534**	141,193	**237,288**	804,627
– in more than one year but not more than two years	—	35,527	**139,961**	125,534	**139,961**	161,061
– in more than two years but not more than five years	—	106,581	**66,846**	121,981	**66,846**	228,562
– in more than five years	—	461,838	—	—	—	461,838
	97,754	1,267,380	**346,341**	388,708	**444,095**	1,656,088

Company	Loans and overdrafts 2004 £	Finance leases 2004 £	Total 2004 £
– in one year or less	97,591	90,998	188,589
– in more than one year but not more than two years	—	131,183	131,183
– in more than two years but not more than five years	—	58,968	58,968
– in more than five years	—	—	—
	97,591	**281,149**	**378,740**

17 **Financial instruments**

The Group's financial instruments comprise borrowings, finance leases, cash and various items such as trade debtors and trade creditors etc that arise directly from its operations. Working capital requirements are met out of floating rate overdrafts and retained profits. It is not Group policy to trade in financial instruments.

The Group's objective that debt should have a range of maturities which broadly match the economic life of the assets being financed has been achieved during 2004.

17 Financial instruments continued

Interest rate of borrowings

The interest rate profile of the Group is shown below:

The interest rate exposure of the Group's borrowings is shown below:

	2004 £	2003 £
Floating rate financial liabilities	**395,040**	1,546,699
Fixed rate financial liabilities	**49,055**	109,389
	444,095	1,656,088
Weighted average interest rate	**9.8%**	9.0%
Weighted average period for which rate is fixed	**0.9 years**	1.8 years

The floating rate borrowings comprise bank loans amounting to £Nil (2003: £675,000) bearing an interest rate of 1.75% above Barclays Bank Base Rate and various overdrafts and finance leases, all of which bear interest at rates related to the base rate.

An analysis of the maturity of these borrowings can be found in note 16.

Liquidity risk

The Group has the following undrawn committed borrowing facilities

	Expiring in one year or less
As at 30 June 2004	**£1,000,000**
As at 30 June 2003	£372,093

Unutilised committed borrowings have been maintained in order to provide flexibility in the management of liquidity.

Interest rate and currency of cash balances

Floating rate financial assets of £916,609 (2003: £300,416) comprise short term cash deposits on seven day rates together with balances held on non interest bearing current accounts. There are no fixed rate financial assets.

Currency exposure

The monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating unit concerned are shown below.

Net foreign currency monetary assets/(liabilities)

	Euro	US Dollar	Total
At 30 June 2004	**(£62,741)**	**(£172,159)**	**(£234,900)**
At 30 June 2003	(£64,648)	£54,297	(£10,351)

The functional currency of all operations is Sterling.

Fair values of financial instruments

There is no difference between the current and book values of all the Group's financial instruments.

notes to the financial statements

for the year ended 30 June 2004 continued

18 Provisions for liabilities and charges

	Deferred taxation
Group	£
Balance at 1 July 2003	154,385
Arising on acquisition in year	4,457
Transfer to Profit and Loss Account	(52,747)
Balance at 30 June 2004	**106,095**
Company	
Transferred from subsidiary undertaking on 30 June 2004	71,062
Balance at 30 June 2004	**71,062**

Deferred taxation

	2004	2003
Group	**£**	£
Capital allowances	**139,148**	154,385
Sundry timing differences	**(33,053)**	—
	106,095	154,385

Company

The deferred tax liability of the Company relates entirely to accelerated capital allowances.

19 Share capital

	2004 Number	2003 Number	2004 £	2003 £
Authorised				
Ordinary shares of 10p each	20,000,000	20,000,000	2,000,000	2,000,000
Allotted, called up and fully paid				
Ordinary shares of 10p each	13,398,789	9,940,000	1,339,879	994,000

	Ordinary shares of 10p each Number	£
At 1 July 2003	9,940,000	994,000
Issued in year	3,458,789	345,879
In issue at 30 June 2004	**13,398,789**	**1,339,879**

Authorised and issued share capital and merger reserve are shown on a proforma basis at 30 June 2003, and represent the capital of the Group existing at that date.

On 29 January 2004 two ordinary shares of £1 each were issued by the Company at par for cash. On 25 February 2004, each ordinary share of £1 each was sub-divided into ten ordinary shares of 10p each. On the same day a further 9,920 ordinary shares of 10p each were issued at par for cash.

On 16 March 2004, 9,940,000 ordinary shares of 10p each were issued at par to acquire the entire issued share capital of Polaron Engineering Ltd.

On 31 March 2004, 1,133,334 ordinary shares of 10p each were issued at 150p as part consideration for Polaron Engineering Ltd to acquire the remaining shares in Oxford Nanoscience Ltd not previously owned by the Group.

On 31 March 2004, 16,667 ordinary shares of 10p each were issued at 150p as part consideration for Polaron Engineering Ltd to acquire the remaining shares in Polaron Communications Ltd not previously owned by the Group.

19 Share capital continued

On 31 March 2004, 83,334 ordinary shares of 10p each were issued at 150p as part consideration for Polaron Engineering Ltd to acquire the remaining shares in Marata Group Limited not previously owned by the Group.

On 31 March 2004, 2,215,514 ordinary shares of 10p each were issued for cash at 150p to raise working capital.

Enterprise Management Incentive Option Scheme

At 30 June 2004 the following share options were outstanding in respect of the ordinary shares:

Date of grant	Number of shares	Period of option	Price per share
31 March 2004	247,702	March 2005 – March 2014	150p
31 March 2004	82,000	March 2006 – March 2014	150p

20 Reserves

Group	Share premium account £	Revaluation reserve £	Merger capital reserve £	Other reserves £	Profit and loss account £
At 1 July 2003	—	1,465,075	(321,226)	14	597,571
Profit for the year	—	—	—	—	457,351
Premium on issue of ordinary shares	4,828,389	—	—	—	—
Expenses on issue of ordinary shares	(760,923)	—	—	—	—
At 30 June 2004	**4,067,466**	**1,465,075**	**(321,226)**	**14**	**1,054,922**

Company	Share premium account £	Profit and loss account £
Profit for the year	—	46,240
Premium on issue of shares	4,828,389	—
Expenses on issue of shares	(760,923)	—
	4,067,466	46,240

21 Reconciliation of movements in shareholders' funds

	Group 2004 £	Group 2003 £	Company 2004 £
Profit for the year	**490,848**	401,587	**79,737**
Dividends	**(33,497)**	(717,651)	**(33,497)**
	457,351	(316,064)	**46,240**
Issue of shares	**4,413,345**	—	**5,407,345**
Unrealised surplus on revaluation of property	—	500,000	—
Shares to be issued as future consideration	**72,321**	—	**72,321**
Net addition to shareholders' funds	**4,943,017**	183,936	**5,525,906**
Opening shareholders' funds	**2,735,434**	2,551,498	—
Closing shareholders' funds	**7,678,451**	2,735,434	**5,525,906**

notes to the financial statements

for the year ended 30 June 2004 continued

22 Contingent liabilities

The Company has guaranteed bank borrowings of its UK subsidiary undertakings. At the year end the liabilities covered by these guarantees totalled £Nil.

23 Acquisitions

Acquisition of Marata Group Limited

On 31 March 2004 the Group acquired the remaining 50% of the share capital of Marata Group Limited that it did not already own for a cash consideration of £8,270 and the issue of 88,334 ordinary shares of 10p each in the Company at 150p per share.

In calculating the goodwill arising on acquisition, the fair value of net assets of Marata Group Limited have been assessed and no adjustments from book value were necessary. Book value and fair value are summarised in the following table:

	Fair Value £
Tangible fixed assets	26,208
Current assets:	
Stocks	140,000
Debtors	314,143
Cash	376
Total assets	480,727
Creditors	(372,086)
Provisions for liabilities and charges	(4,457)
Net assets	104,184

Cash flows

The net outflow of cash arising from acquisitions was as follows:

	£
Cash consideration, as above	8,270
Cash acquired	(376)
Bank overdraft acquired	35,029
Net outflow of cash in respect of Marata Group Limited	42,923

	£
Cash consideration	8,270
Shares consideration	125,000
Acquisition costs	6,003
	139,273
Net assets acquired	104,184
	35,089
Previously accounted as joint venture	8,916
Goodwill arising on acquisition (note 11)	26,173

23 Acquisitions continued

The results of Marata Group Limited prior to its acquisition were as follows:

Consolidated Profit and Loss Account

	1 July 2003 to 31 March 2004 £	20 March 2002 to 30 June 2003 £
Turnover	**970,172**	588,019
Operating profit	**19,708**	32,740
Net interest	**—**	690
Profit on ordinary activities before taxation	**19,708**	33,430
Taxation on profit from ordinary activities	**—**	1,520
Profit for the period	**19,708**	34,950
Statement of total recognised gains and losses		
Profit for the period and total recognised gains and losses for the period	**19,708**	34,950

24 Pensions

The Group contributes to defined contribution pension schemes. The assets are held separately from those of the Group in independently administered funds. The pension charge represents contributions payable by the Group to the funds and amounted to £51,068 (2003: £56,587). Contributions totalling £2,081 (2003: £5,822) were payable to the funds at the year end and are included in creditors.

25 Commitments under operating leases

As at 30 June 2004, the Group had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2004 £	Other 2004 £	Land and buildings 2003 £	Other 2003 £
Operating leases which expire:				
Within one year	**13,950**	**—**	—	2,965
In two to five years	**77,000**	**11,234**	66,850	11,234
After five years	**130,000**	**—**	110,000	—
	220,950	**11,234**	176,850	14,199

26 Related party transactions

Transactions with former joint venture company

Disclosure has been made below of the Group's transactions with Fotadvise (M.E.W.) Limited during the year.

	2004	2003
Management and service charges	**£123,750**	£56,658
Sales	**£94,501**	£175,050
Purchases	**£11,760**	£3,719

26 Related party transactions continued

Transactions with Directors

The Group leases a building from a Pension Scheme in which Dr Isidore Stelzer and his wife, Mrs S Stelzer have beneficial interests. The annual rent payable by the Group under this lease is £120,000 (2003: £100,000).

On 31 March 2004, as part of the transaction to purchase the minority interest shareholdings in Oxford Nanoscience Limited, the Group paid £42,857 in cash and issued share consideration of £728,571 to acquire the shares held by Professor George Smith and his wife.

The following amounts were owed by Directors to the Group at 30 June 2004; Joe Stelzer £Nil (2003: £227,487) Dr Isidore Stelzer £Nil (2003: £135,300). The amounts outstanding at 30 June 2003 were the maximum amounts outstanding during the respective years and were repaid in full on 5 March 2004.

Other related party transactions

At 30 June 2004, the Group had outstanding loans of £9,700 (2003: £20,064) to EPIIC Limited in which the Group has a financial interest and of which Joe Stelzer was a Director until 3 March 2004. The maximum outstanding in the year was £40,179 (2003: £20,064). During the year £30,479 was written off as irrecoverable. The balance of £9,700 has been repaid since 30 June 2004.

27 Post balance sheet event

On 1 September 2004, the Company acquired the entire issued share capital of iLight Group Ltd. The consideration was £1,700,000 which was to be satisfied as to £1,000,000 in cash and the balance by the issue of new ordinary shares of 10p each in the Company. The number of shares will be determined by reference to completion accounts of iLight Group Ltd and its subsidiaries. The issue price will be the market price on the day of issue.

28 Reconciliation of operating profit to net cash inflow from operating activities

	2004 £	2003 £
Operating profit	**808,105**	704,147
Amortisation of intangible fixed assets	**107,641**	29,279
Depreciation of tangible assets	**247,255**	187,374
Loss on sale of tangible assets	**4,368**	51,184
(Increase)/decrease in stocks	**(195,710)**	104,474
Decrease/(increase) in debtors	**100,870**	(1,227,742)
(Decrease)/increase in creditors	**(80,429)**	472,399
Net cash inflow from operating activities	**992,100**	321,115

29 Analysis of net funds

	As at 1 July 2003 £	Cash flow £	Other non-cash items £	As at 30 June 2004 £
Net cash:				
Cash at bank and in hand	300,416	416,193	—	**716,609**
Bank overdrafts	(627,907)	530,153	—	**(97,754)**
		946,346		
Debt due within one year	(35,527)	35,527	—	—
Debt due after one year	(603,946)	603,946	—	—
Finance leases	(388,708)	161,325	(118,958)	**(346,341)**
		800,798		
Other liquid resources	—	200,000	—	**200,000**
	(1,355,672)	1,947,144	(118,958)	**472,514**

30 Reconciliation of net cash inflow to movement in net debt

	2004 £	2003 £
Increase/(decrease) in cash	**946,346**	(141,403)
Cash outflow from changes in debt	**800,798**	167,781
Cash outflow from changes in liquid resources	**200,000**	—
Movement in net debt resulting from cash flows	**1,947,144**	26,378
Inception of finance leases	**(118,958)**	(240,775)
Movement in net debt	**1,828,186**	(214,397)
Opening net debt	**(1,355,672)**	(1,141,275)
Closing net funds	**472,514**	(1,355,672)

31 Cash flows relating to acquisitions

	Acquisitions £
Operating cash flows	120,816
Taxation	(26,207)
Net cash inflow	94,609

**32 Polaron plc (formerly Tonepress plc)
– Consolidated Profit and Loss Account from date of incorporation to 30 June 2004**

	Continuing operations 2004 £	Acquisition 2004 £	Total 2004 £
Turnover: Group and share of joint venture	5,926,440	297,395	**6,223,835**
Less: share of joint venture turnover	159,524	—	**159,524**
Group turnover	5,766,916	297,395	**6,064,311**
Cost of sales	3,447,708	198,960	**3,646,668**
Gross profit	2,319,208	98,435	**2,417,643**
Distribution expenses	327,323	—	**327,323**
Administrative expenses (including exceptional items of £214,100)	1,724,079	79,445	**1,803,524**
Group operating profit	267,806	18,990	**286,796**
Share of operating loss of joint venture	12,360	—	**12,360**
Profit on ordinary activities before interest and other income	255,446	18,990	**274,436**
Interest receivable			**4,072**
Interest payable and similar charges			**(26,957)**
Profit on ordinary activities before taxation			**251,551**
Taxation on profit from ordinary activities			**87,692**
Profit on ordinary activities after taxation			**163,859**
Minority interest			**4,198**
Profit for the period			**159,661**
Dividends			**33,497**
Retained profit			**126,164**

Included above are the following items which relate to the period prior to the merger:

Turnover	**2,192,896**
Operating profit	**151,857**
Exceptional items – expense	**214,100**

The Profit and Loss Account above is required by the Companies Act 1985 and covers the first statutory accounting reference period of Polaron plc (formerly Tonepress plc) from its date of incorporation on 29 January 2004 to 30 June 2004.

Disclosure notes for this period are not presented as the Directors do not believe they would provide meaningful information to users of the financial statements.

Amounts for the period from 29 January 2004 to 30 June 2004 in respect of staff costs and other time related costs can be derived by apportioning the annual amounts.

Directors' emoluments for the period from 29 January 2004 to 30 June 2004 were as follows:

	£
Directors' emoluments	190,357
Company contributions to money purchase pension schemes	946
Compensation for loss of office	200,000

notice of annual general meeting

Notice is hereby given that the first Annual General Meeting of Polaron plc (the "Company") will be held at the offices of Arbuthnot Securities Limited, Arbuthnot House, 20 Ropemaker Street, London EC2Y 9AR on 11 November 2004 at 9.30am for the transaction of the following business:

Ordinary business

Resolution 1

To receive and approve the Reports of the Directors and Auditors and the Accounts for the year ended 30 June 2004.

Resolution 2

To elect Jonathan Clough as a Director of the Company, who retires by rotation in accordance with the Articles of Association of the Company.

Resolution 3

To re-appoint BDO Stoy Hayward LLP as Auditors of the Company and to authorise the Directors of the Company to determine their remuneration.

Resolution 4

To declare a final dividend of 0.25 pence net per ordinary share to be paid on 30 November 2004.

Special business

Resolution 5

To consider and, if thought fit, pass the following as an Ordinary Resolution:

THAT the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of section 80 of the Companies Act 1985 (the "Act")) up to an aggregate nominal amount of £660,121, provided that this authority shall expire, unless previously renewed, revoked or varied by the Company in general meeting, fifteen months after the passing of this Resolution 5, or, if earlier, at the conclusion of the 2005 Annual General Meeting save that, before such expiry, the Company may make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the power conferred by this Resolution 5 had not expired, and provided further that all unexercised authorities previously granted to the Directors to allot relevant securities be and are hereby revoked.

Resolution 6

To consider and, if thought fit, pass the following as a Special Resolution:

THAT, subject to the passing of Resolution 5, the Directors be and are hereby empowered 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 general authority conferred on them by Resolution 5 and/or to sell equity securities held as treasury shares for cash pursuant to section 162D of the Act, in each case as if section 89(1) of the Act did not apply to any such allotment or sale, provided that this power is limited to:

(a) any such allotment and/or sale of equity securities in connection with an offer (whether by way of a rights issue, open offer or otherwise) to the holders of ordinary shares of the Company in proportion (as nearly as may be) to their respective holdings of ordinary shares, subject only to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements, or any legal or practical problems arising in any overseas territory, or the requirements of any regulatory body or stock exchange or any other matter whatsoever;

notice of annual general meeting

continued

Resolution 6 continued

(b) the grant of options over such number of ordinary shares representing up to 7.5% of the issued share capital of the Company from time to time pursuant to the EMI Scheme and the issue of shares pursuant to the exercise of such options; and

(c) any such allotment and/or sale (otherwise than pursuant to paragraphs (a) and (b) above) of equity securities up to an aggregate nominal amount of £66,993.95.

This authority, which revokes the authority taken pursuant to section 95 of the Act dated 25 March 2004, shall expire, unless previously renewed, revoked or varied by the Company in general meeting, at such time as the general authority conferred on the Directors by Resolution 5 above expires, save that the Company may at any time before such expiry make any offer or agreement which would or might require equity securities to be allotted or equity securities held as treasury shares to be sold after such expiry and the Directors may allot equity securities and/or sell equity securities held as treasury shares in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

Resolution 7

To consider and, if thought fit, pass the following as a Special Resolution:

THAT the Company be and is hereby unconditionally and generally authorised pursuant to Article 6 of the Articles of Association of the Company and in accordance with the provisions of section 166 of the Act to make market purchases (as defined in section 163 of the Act) of ordinary shares of 10 pence each in the capital of the Company provided that:

(a) the maximum number of ordinary shares hereby authorised to be purchased is 1,339,879;

(b) the minimum price which may be paid for any such ordinary share is 10 pence;

(c) the maximum price which may be paid for any such ordinary share is, in respect of a share contracted to be purchased on any day, an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the Daily Official List of the London Stock Exchange on the five business days immediately preceding the day on which any such ordinary share is contracted to be purchased; and

(d) the authority hereby conferred shall expire on the earlier of the date which is fifteen months after the passing of this Resolution 7 or the conclusion of the 2005 Annual General Meeting (but so that this power shall enable the Company to make offers or agreements before the expiry of this authority which would or might require ordinary shares to be purchased by the Company after expiry of this power).

The Board unanimously recommends shareholders to vote in favour of Resolutions 1 to 7 above.

By order of the Board

J. Clough

Jonathan Clough
Company Secretary
20 October 2004

Registered Office:
26 Greenhill Crescent, Watford Business Park,
Watford, Hertfordshire WD18 8XG

Notes

1. A member of the Company is entitled to attend and vote at the above meeting and is entitled to appoint a proxy (or proxies) to attend and, on a poll, vote on their behalf. A proxy need not be a member of the Company.

2. A form of proxy is enclosed. The appointment of a proxy will not prevent a member of the Company from subsequently attending and voting at the meeting in person.

3. To be effective, the form of proxy and the power of attorney or any other written authority (if any) under which it is signed or a notarially certified copy of such power or authority must be lodged with the Company's registrars, Computershare Investor Services plc, PO Box 1075, The Pavilions, Bridgwater Road, Bristol BS99 3FA not less than 48 hours before the time appointed for the meeting.

4. Copies of all service contracts under which the Directors of the Company are employed by the Company or any of its subsidiaries are available for inspection at the Company's registered office during business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the conclusion of the above meeting.

shareholders' notes

form of proxy

for use by shareholders in connection with the Annual General Meeting of the Company to be held on 11 November 2004

I/We ____
(Block capitals)
of (address) ____
being a member/members of Polaron plc, hereby appoint the Chairman of the meeting/or

____

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 11 November 2004 and at any adjournment thereof, and I/we direct him/her to vote as follows in respect of the following resolutions to be proposed at the meeting.

Ordinary business	**For***	**Against***
Resolution 1 Approve the Reports of the Directors and Auditors and the Accounts for the year ended 30 June 2004.		
Resolution 2 Elect Jonathan Clough as a Director of the Company, who retires by rotation.		
Resolution 3 Re-appoint BDO Stoy Hayward LLP as Auditors of the Company and authorise the Directors to determine their remuneration.		
Resolution 4 Declare a final dividend of 0.25 pence net per ordinary share.		
Special business	**For***	**Against***
Resolution 5 Authorise the Directors to allot relevant securities up to an aggregate nominal amount of £660,121.		
Resolution 6 Subject to the passing of Resolution 5, authorise the Directors to allot equity securities for cash or sell equity securities held as treasury shares for cash in connection with an offer in favour of holders of ordinary shares; pursuant to the EMI Scheme; or up to a maximum aggregate nominal value of £66,993.95.		
Resolution 7 Authorise the Directors to purchase shares in the market up to a maximum of 1,339,879 ordinary shares.		

Signed ______________________________ Dated ______________________

* Please indicate by inserting X how you wish your vote to be cast on the resolutions.

Notes:

A member is entitled to appoint a proxy of his/her own choice who need not be a member of the Company. In the case of joint members, the vote of the senior joint member who signs a proxy will be accepted to the exclusion of others, seniority being determined by the order of names in the register. The proxy must, if the member is an individual, be signed by a member or his/her attorney duly authorised in writing or, if the member is a corporation, it must be under its common seal or signed by an officer or attorney so authorised (and such officer or attorney should state his/her capacity). If no indication is given as to how the proxy appointed shall vote, he/she may exercise his/her discretion as to how he/she votes or whether he/she abstains from voting. To be effective, the proxy form and the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of such power or authority) must be returned so as to reach Computershare Investor Services plc, PO Box 1075, The Pavilions, Bridgwater Road, Bristol BS99 3FA not less than 48 hours before the time appointed for holding the Annual General Meeting or adjourned general meeting at which it is used.

FOLD 2

BUSINESS REPLY SERVICE
Licence No. SWB1002

1

Computershare Investor Services plc
PO Box 1075
The Pavilions
Bridgwater Road
Bristol BS99 3FA

FOLD 1

FOLD 3 AND TUCK IN

directors and advisors

Directors

Professor George Smith	Non-executive Chairman
Joe Stelzer	Chief Executive Officer
Jonathan Clough	Finance Director
William David	Non-executive Director

Secretary and registered office

Jonathan Clough
26 Greenhill Crescent
Watford Business Park
Watford, Hertfordshire WD18 8XG

Company number

05029521

Auditors

BDO Stoy Hayward LLP
Prospect Place
85 Great North Road
Hatfield, Hertfordshire AL9 5BS

Nominated advisor and broker

Arbuthnot Securities Limited
Arbuthnot House
20 Ropemaker Street
London EC2Y 9AR

Professor George Smith FRS, aged 61, is Head of the Oxford University Department of Materials. He is a member of several scientific and academic societies including serving on the executive council of the Royal Society and a fellow of the Institute of Physics, the Institute of Materials and the Royal Society of Chemistry. He is author or co-author of two books and over 270 scientific papers and recently presented a paper on nanotechnology to the Parliamentary and Scientific Committee.

Joe Stelzer, aged 37, joined the Group in 1988 and founded the Software Republishing division. In 1993, he became the managing director of Polaron Controls, and five years later assumed the role of Chief Executive of the Group. Since then Joe has been instrumental in the growth of the Group, both organically and by acquisition. Prior to joining the Group, Joe completed a degree in electronic engineering and computer science at University College London.

Jonathan Clough ACA, aged 37, graduated in accounting and financial analysis at the University of Warwick in 1988 before qualifying as a chartered accountant in 1992. Prior to joining the group in 1994 as financial controller, Jon worked as an accounts manager for ANS Homes Limited.

William David FCA, aged 53, graduated from Oxford University in 1973 and joined Touche Ross & Co with whom he qualified before moving to the Quotations Department of The Stock Exchange. In 1983 Will joined the corporate finance team at Hoare Govett & Co, where he specialised in advising small and midcap companies. In 1994 he joined the corporate advisory division of Price Waterhouse & Co and most recently was a corporate finance director at Investec Bank (UK) Limited, where he also had some responsibility for compliance. From October 2001 to November 2002 he was a non-executive director of Drew Scientific Group plc.

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Polaron

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