(Zetes Industries S.A., a limited liability company organized and existing under the laws of Belgium, with registered office at Da Vinci Science Park, Rue de Strasbourg 3, 1130 Brussels, Belgium)

OFFERING TO SUBSCRIBE FOR UP TO €30 MILLION NEW SHARES WITH VVPR STRIPS (THE "PRIMARY OFFERING") AND OFFERING TO SELL UP TO 1,377,995* EXISTING SHARES PARTIALLY WITH VVPR STRIPS (THE "SECONDARY OFFERING")

THE OFFERED SHARES ARE OFFERED TO THE PUBLIC IN BELGIUM AND PURSUANT TO A PRIVATE PLACEMENT TO INSTITUTIONAL INVESTORS IN BELGIUM AND EUROPE

* Including Over-allotment Option

The Joint Global Coordinators will be granted an Over-allotment Option, exercisable as of the Listing Date and until 30 days thereafter, corresponding to a maximum of 15% of the shares offered in the Offering, for the sole purpose of allowing the Underwriters to cover over-allotments, if any. The Over-allotment Option consists of an option to purchase Existing Shares owned by the Selling Shareholders. The shares covering the Over-allotment Option will not have a separate VVPR strip.

Listing on Eurolist by Euronext Brussels of all Existing Shares of the Company and the New Shares as well as all VVPR strips

FORTIS BANK

Joint Global Coordinators
Bookrunners

KBC Securities

Co-Lead Manager

DEXIA Bank

Selling Agents
KBC Bank, CBC Banque, Bank Degroof and Petercam

Advisor to the Company
Petercam

Prospectus dated November 2005

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SUMMARY

This summary should be read as an introduction to the Prospectus. It contains selected information about Zetes and the Offering. It does not include all the information that may be important to investors. This summary should be read together with, and is qualified in its entirety by, the more detailed information and the consolidated financial statements and notes thereto appearing elsewhere in this Prospectus. It should also be read together with the matters set forth under "Risk Factors". No civil liability will attach to the Company in respect of this summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Any decision to invest in the Offered Shares should be based on consideration of the Prospectus as a whole by the investor. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the applicable legislation, have to bear the costs of translating the Prospectus before the legal proceedings are initiated.

BUSINESS SUMMARY

The Automatic Identification **(Auto-ID) industry** is a technology-driven industry with strong growth prospects. It encompasses two markets—the Goods Identification market and the People Authentication market. Goods Identification involves the collection and management of data relating to the movement of goods. People Authentication involves the reliable verification that individuals are who they claim to be.

Due to the increasing **need for efficiency, security and data accuracy,** the Auto-ID industry is expected to grow between 2004 and 2008 with a **CAGR** (compounded annual growth rate) of about **11.6%** to reach a total value in excess of $29 billion by 2008 (source: VDC, Eurosmart, Company estimates).

Zetes is a leading pan-European system integrator deploying value-added solutions in the Auto-ID industry in both Goods Identification and People Authentication.

Zetes is experiencing a **convergence between the Goods Identification and People Authentication** markets. Since Zetes is active in both markets, this convergence is beneficial to the Company and, amongst other benefits, allows it to leverage its expertise in Goods Identification (data capture and data transmission) to satisfy the needs of its customers in the emerging electronic People Authentication business.

Offering full system integration services to create complete solutions, Zetes concentrates its efforts on two main business segments:

- *Goods Identification:* Combining its mastery of Auto-ID identification technologies with its experience in communications and integration competence, Zetes designs, develops, and delivers complete Goods Identification solutions for such applications as manufacturing work-in-process, warehouse picking, retail shelf price management, maintenance work order planning, transport freight management and mobile sales proof of delivery.
- *People Authentication:* Using smart card technology, biometrics, encryption, secure communications and application software, Zetes creates complete People Authentication solutions involving the creation of secure documents such as national identity cards, health cards, voter identity cards, campus ID cards, e-wallets, and pre-paid cards for governments, institutions, financial services, insurance, public transport, and telecoms. Zetes is focused on government and institution market segments, but is also active in other market segments where high-touch *(see "Business glossary")* value-added solutions are required.

In order to create complete solutions, Zetes offers a full range of services—from analysis to project management, project execution, and maintenance capabilities.

Zetes has **20 years of experience** in the Auto-ID industry—20 years in Goods Identification and 6 years in People Authentication; Zetes' entry into and subsequent investment in People Authentication was driven by the Company's anticipation of an increasing need for security and electronic people identification. During its 20-year history, Zetes has acquired an in-depth understanding of customers' needs and seeks to translate those needs into business processes addressed with solutions integrating appropriate technologies.

Established in 1984 with headquarters in Belgium, the Company has grown both organically and through acquisitions giving it presence in **8 countries**: Belgium, France, Germany, Ireland, The Netherlands, Portugal, Spain, and the United Kingdom. This local geographic presence, supported by the Company's centralized competence centers, was developed with a view towards building local market knowledge, understanding the local culture, understanding the customer's needs, maintaining long-term business relationships, being close to the customer to develop new business with them, and being able to support and maintain the customer over the long-term. **Thanks to its pan-European positioning and to its proven reputation in its home market, Zetes can accelerate the pace of its growth in large European countries.** For a geographical distribution of sales see section 7.3.2.1 and 8.3.7.3.

Zetes currently employs 440 employees (in FTEs).

As a solutions provider, Zetes' success is dependent upon the people who provide its services. Consequently, it is essential for Zetes to foster talents across a wide range of disciplines including, but not limited to, hardware design, hardware maintenance and repair, project management, software programming, networking, software helpdesk, and consulting.

Given its breadth and depth of talents, Zetes has the ability to deploy, virtually anywhere in the world, teams involving business analysts, project managers, deployment and maintenance engineers. As a result, in multi-year project roll-outs, such as a government sponsored People Authentication project, if necessary, Zetes dispatches a team to stay in the host country through-out the duration of the roll-out.

Zetes' recent win and successful deployment of a People Authentication project for voter registration and card issuing kits for the Democratic Republic of the Congo (the Congo - DROC) is an example of one such large-scale international deployment executed by Zetes (see also section 6.5.5).

Zetes is not tied to or betting on just one technology. It uses both emerging and mature technologies, as appropriate, to give the customer a solution. Technological innovation is tracked and researched by specialized teams called competence centers. They support the country teams and offer their expertise and experience to the local Zetes subsidiaries once it has been established that an emerging technology best satisfies a customer's needs.

Zetes has also acquired know-how in establishing secure facilities. Zetes has a smart card (secure document) production and document personalization facility in Belgium where thousands of highly secured chipcards, like the Belgian electronic ID card, are produced each day. In addition to a heavy and focused capital investment, significant know-how is required to set up such a secure facility.

Over the years, Zetes has developed a customer installed base, throughout Europe, with customers representing virtually every market segment from manufacturing to transportation and logistics, government, healthcare, retail, food and drug, automotive, education, financial services, law enforcement, and hospitality. Multi-national companies that are among the leaders in their respective sectors, value and appreciate Zetes' expertise, services, and its pan-European coverage.

Similarly, over the years, Zetes has established relationships with many suppliers in keeping with its intention to be technology provider independent and in keeping with its strategy to integrate only "best-of-breed" products (see Zetes' Corporate Strategy in section 6.3.4). Consequently, Zetes has a complete offering of products and services backed by strong partnerships with industry leaders.

The Company generated revenues of €100.8 million in 2004 on a consolidated basis. In both Goods Identification and People Authentication, Zetes has experienced a strong growth in H1 2005 in sales (17.7% and 190% respectively compared with 1H 2004) and in profitability (EBITDA 119% compared with 1H 2004).

The evolving market is confirming the market potential for Goods Identification and the emerging opportunities for People Authentication. However, the fragmented marketplace and the lack of reliable data make it impossible to give market shares for Zetes and its competitors. Nevertheless, it can be stated that, on a worldwide scale, there are few companies matching Zetes' positioning in both the Goods Identification and People Authentication markets and offering the same range of competences, broad geographical coverage, and international reach.

CORPORATE GOVERNANCE

As of the Closing Date, the board of directors of the Company will consist of nine members: three executive directors and six non-executive directors of which three are independent directors.

The statutory auditor of the Company is Dupont, Ghyoot, Koevoets, Peeters, Rosier & Co Réviseurs CVBA, represented by Mr. Thierry Dupont.

The Company will adopt a corporate governance charter in accordance with the recommendations set out in the Belgian Code for Corporate Governance issued on 9 December 2004 by the Belgian Corporate Governance Committee. The Company's board of directors intends to comply with the Belgian Code for Corporate Governance, but believes that certain deviations from its provisions are justified in view of the Company's particular situation. The Company's board of directors will review its corporate governance charter from time to time and make such changes, as it deems necessary and appropriate.

OFFERING SUMMARY (KEY ELEMENTS OF THE OFFERING AND CALENDAR)

The Company	Zetes Industries SA, a limited liability company organized under the laws of Belgium.
Zetes	The Company and its subsidiaries (see section 3.3)
The Selling Shareholders	The Selling Shareholders are the following limited liability companies organized under the laws of Belgium and individuals: Zephir Corporation SA ("Zephir"), Cobepa SA, Inducam SA, E-Capital SCA, Sapec SA, KBC Private Equity NV, Dexia Bank NV/SA ("Dexia"), Mr. Franky Carbonez and Mr. Pierre Lambert.
Joint Global Coordinators	KBC Securities NV/SA and Fortis Bank NV/SA
Co-Lead Manager	Dexia Bank NV/SA
Underwriters	The Joint Global Coordinators together with the Co-Lead Manager
Selling Agents	KBC Bank NV, CBC Banque SA, Bank Degroof and Petercam
Offered Shares	The Company intends to offer up to €30 million New Shares and the Selling Shareholders intend to offer an aggregate of up to 1,377,995 Existing Shares (including the Over-allotment Option shares but excluding the Employee Offering).

	See also section 2 "General information relating to the Offering and admission to listing on the Eurolist by Euronext Brussels". All Offered Shares were/will be issued in accordance with Belgian law. All Offered Shares will have the same rights attached to them as the Company's other shares. The Offered Shares will be entitled to a share in the profits of the Company as of 1 January 2005 and are therefore entitled to the dividend for the financial year closed on 31 December 2005 and the following financial years, if any. The Offered Shares will have coupons nr.1 and following attached.
New Shares	Up to €30 million newly issued shares offered in the Primary Offering. The number of New Shares to be issued in the Primary Offering shall be determined by dividing up to €30 million (assuming the Primary Offering is subscribed in full) by the Offer Price. The maximum number of New Shares will be confirmed and published in the Belgian financial press together with the price range of the Offering. The actual number of New Shares will be published together with the Offer Price.
Existing Shares	All of the shares issued by the Company existing prior to the Closing Date, including all new shares issued by the Company that will be created as a result of the exercise of the Warrants (as defined in section 3.4.2). Amongst the Existing Shares, only the Existing Shares resulting from the exercise of Warrants will be sold with a separate VVPR strip.
Offering	The Offering of the Offered Shares consists of: • A public offering in Belgium; and • A private placement to institutional investors in Belgium and Europe[1].
Primary Offering	The Primary Offering consists of the offering of the New Shares.
Secondary Offering	The Secondary Offering consists of the offering by the Selling Shareholders for up to 1,377,995 Existing Shares (including the Over-allotment Option but excluding the Employee Offering). The actual number of Existing Shares offered by the Selling Shareholders in the Offering will be confirmed and published in the Belgian financial press together with the Offer Price. The Secondary Offering is subordinated to the Primary Offering, and is subject to the suspensive condition *(condition suspensive / opschortende voorwaarde)* of the closing of the Primary Offering.
VVPR strips	VVPR strips entitle certain of their holders to a reduced rate of Belgian withholding tax (15% rather than 25%) on dividends. The VVPR strips will be tradable separately. In allocating the Offered Shares, the Joint Global Coordinators will use reasonable efforts to deliver shares with VVPR strips to individual persons residing in Belgium and to investors subject to Belgian tax on legal entities *(impôt des personnes morales / rechtspersonenbelasting)*, in this order of priority.

[1] *European Union and Switzerland*

Over-allotment Option

The Joint Global Coordinators will be granted an Over-allotment Option, exercisable as of the first day of trading and until 30 days thereafter corresponding to a maximum of 15% of the offered shares in the Primary and Secondary Offering (excluding the Over-allotment Option), for the sole purpose of allowing the Underwriters to cover over-allotments, if any. The maximum number of shares covering the Over-allotment Option will be confirmed and published in the Belgian financial press together with the price range of the Offering.

Such possibility will exist whether or not the Primary and/or Secondary Offering is/are fully subscribed. The Over-allotment Option will not exceed 15% of the allotted shares (excluding the over-allotted shares).

The shares covering the Over-allotment Option will be Existing Shares that will be lent by the Selling Shareholders to the Joint Global Coordinators. The shares covering the Over-allotment Option will not have a separate VVPR strip.

Employee Offering

In a separate offering and subject to the suspensive condition *(condition suspensive/ opschortende voorwaarde)* of closing of the Offering, the Company will offer its employees a subscription of up to €1.5 million in new shares with VVPR strips. The subscription price will be equal to the Offer Price less a discount of 16.66% (see section 2.12). The Shares subject to the Employee Offering will not be transferable for two years. The costs of the Employee Offering will be borne by the Company. The Employee Offering shares are not part of the Offered Shares.

Offering Period

The Offering Period will begin on 8 November 2005 and is expected to end on 18 November 2005, subject to early closing. The Joint Global Coordinators in agreement with the Company reserve the right to close the Offering Period at an earlier or later date and time. Any early closure of the Offering Period will be announced in the Belgian financial press. The Offering Period will in any event be open for at least three trading days as from the availability of the Prospectus.

Offer Price and Allocation Date

The Offer Price will be a single price in euro that will apply to all investors, whether retail or institutional. The Offer Price will be determined within a price range. The applicable Offer Price will in no event exceed the upper-end of the price range. The Joint Global Coordinators will determine the Offer Price in agreement with the Company and the Selling Shareholders on the basis of a book-building procedure, in which only institutional investors can participate. The applicable price range will be published in the Belgian financial press on or about 8 November 2005. The Offer Price will be determined as soon as possible after the end of the Offering Period on the Allocation Date, which is expected on 21 November 2005, subject to early closing. The Offer Price will be published in the Belgian financial press on the first publishing day following its determination, which is expected to be on 22 November 2005.

Payment, settlement and delivery

Payment for and delivery of the shares and VVPR strips are expected to take place in book-entry form against payment in immediately available funds on or about 24 November 2005, being the third trading day following the Allocation Date and subject to early closing. All Offered Shares and VVPR strips will be delivered through the book-entry facilities of the Belgian central securities depositories, all in accordance with their normal settlement procedures applicable to equity securities.

	Upon request, the Offered Shares and VVPR strips will be delivered in physical form, within three months of the Listing Date.
Closing Date	The Closing Date is the date on which the capital increase associated with the Primary Offering will be established by two directors of the Company. The Closing Date is expected to be on or about 24 November 2005, being the third trading day following the Allocation Date and subject to early closing. This date will be published in the Belgian financial press together with the announcement of the Offer Price and the results of the Offering.
Lock-up arrangements	The Selling Shareholders and the Company entered into a lock-up arrangement with the Joint Global Coordinators ending 240 days of the first day of trading of the shares, except with prior written consent of the Joint Global Coordinators. The Joint Global Coordinators accept that any transfer of shares or rights by a Selling Shareholder to a company affiliated to this Selling Shareholder (within the meaning of Article 11 of the Company Code) can take place without approval by them if notified in writing to them including the written adherence by such affiliated company to the same lock-up undertaking until the expiration of the above mentioned 240 day period. These arrangements are further described in section 2.8.2.
Use of proceeds	The net proceeds from the Primary Offering will be allotted to the Company, and the net proceeds from the Secondary Offering will be allotted to the Selling Shareholders. The Company intends to use the net proceeds of the Primary Offering for working capital, capital expenditure, improvement of its financial structure and acquisitions if and when they present themselves, and other general corporate purposes. See further section 2.2.3.
Cost of remuneration and intermediaries	The Offering includes legal, administrative and other costs, registration duties in relation to the issue of new shares, remuneration of the Banking, Finance and Insurance Commission, legal publication, management, cost of advisors, underwriting and selling fees of the Underwriters, expenses and discounts in relation to the Employee Offering and the initial and recurring fees payable to Euronext Brussels. The underwriting and selling fees will be borne by the Company and the Selling Shareholders in proportion with the received gross proceeds. The costs of the Company's legal advisors, the management fees of the Underwriters, the initial and recurring fees payable to Euronext Brussels, and the costs of printing the shares will be borne by the Company. The other costs of the Offering will be borne by the Company and by the Selling Shareholders (for the latter up to €175,000). The Selling Shareholders will also bear the fees and disbursements of their advisors and their own out-of-pocket expenses in connection with the Offering. On the basis of the foregoing, the Company's share of the costs with respect to the Offering are estimated to be €2.4 million in the aggregate.
Listing and Listing Date	An application has been made for the listing and admission to trading on the Eurolist by Euronext Brussels of all Existing shares of the Company including the shares covering the Over-allotment Option, and all New Shares. An application has also been made for admission of all of the VVPR strips of the Company on the Eurolist by Euronext Brussels. Trading will commence on the Listing Date, expected on or about

22 November 2005, being the first trading day following the Allocation Date, but before the Closing Date when the Offered Shares and VVPR strips are delivered to the investors and subject to early closing. Prior to the delivery of the Offered Shares and VVPR strips, the shares will be traded on an "as if-and-when-issued" basis. Prior to the listing of the shares and VVPR strips, no public market existed for the shares and VVPR strips.

Security codes – shares

ISIN: BE0003827442
Security Code: 3827.44
Euronext Symbol: ZTS

Security codes – VVPR strips

ISIN: BE0005600714
Security Code: 5600.71
Euronext Symbol: ZTSS

Timetable

The following dates are all envisaged dates, barring any unforeseen circumstances and subject to early closing:

8 November 2005	Expected publication date of price range of the Offering
8 November 2005	Expected start of Offering Period
18 November 2005	Expected end of Offering Period
21 November 2005	Expected Allocation Date
22 November 2005	Expected publication date of Offer Price
22 November 2005	Expected Listing Date (admission to listing and start of trading)
24 November 2005	Expected Closing Date (payment, settlement and delivery)

SELECTED KEY FINANCIALS

Key figures from the consolidated balance sheet	1H 2005 IFRS	2004 IFRS	2003 IFRS	2003 Belgian GAAP(1)	2002 Belgian GAAP(1)
(in '000 €)	first 6 months	12 months	12 months	12 months	12 months
Non-current assets	34,215	36,631	33,730	28,967	28,702
of which tangible fixed assets	6,098	6,694	6,027	5,634	4,913
of which intangible assets	2,967	2,969	2,882	283	625
of which goodwill	21,707	23,413	21,930	22,630	22,663
of which deferred taxes	3,362	3,455	2,680		
Current assets	62,095	43,400	40,111	42,266	43,707
Total assets	**96,310**	**80,031**	**73,841**	**71,233**	**72,409**
Equity	**9,438**	**8,955**	**10,105**	**7,748**	**10,699**
Minority interest	155	139	1,031	1,137	354
Subordinated debt(2)	14,000	15,236	14,000	14,000	14.000
Other non-current liabilities	2,194	7,184	4,478	4,400	6,921
of which interest bearing borrowings	1,838	6,917	4,400	4,400	6,674
of which provisions	356	267	78		246
Current liabilities	70,523	48,517	44,227	43,948	40,435
of which interest bearing borrowings	21,140	19,325	16,908	16,863	13,333
Total equity and liabilities	**96,310**	**80,031**	**73,841**	**71,233**	**72,409**

(1) The underlying assets and liabilities are to be understood according the Belgian Generally Accepted Accounting Principles. Please, refer to section 8.3.7.17, "Transition to IFRS".
(2) The subordinated debt can be considered as quasi equity. The subordinated debt will be replaced by equity prior to the Closing Date.

Key figures from the consolidated P&L	1H 2005 IFRS (4)	1H 2004 IFRS	2004 IFRS	2003 IFRS	2003 Belgian GAAP(1)	2002 Belgian GAAP(1)
(in '000 €)	first 6 months	first 6 months	12 months	12 months	12 months	12 months
Revenue	**60,401**	**48,711**	**100,829**	**100,105**	**101,296**	**85,036**
Gross margin (5)	24,014	20,239	41,758	40,795	40,538	36,738
Operating expenses	(18,034)	(17,509)	(35,934)	(34,713)	(35,340)	(32,787)
EBITDA (2)	5,981	2,730	5,824	6,082	5,198	3,951
Depreciation and amortization (6)	(2,390)	(1,920)	(4,688)	(5,264)	(5,273)	(4,998)
Operating profit / (loss)	**3,590**	**810**	**1,136**	**818**	**(75)**	**(962)**
Net financial result	(1,592)	(1,528)	(2,763)	(1,840)	(1,825)	(2,366)
Other (7)	(62)	(123)	89	(6)	119	(599)
Income tax	(694)	129	473	(267)	(725)	(533)
Net group profit / (loss)	1,236	(713)	(1,088)	(1,406)	(2,710)	(4,549)
Number of shares (3)	3,084,770	3,084,770	3,084,770	3,084,770	3,084,770	3,084,770
Net earnings per share (3)	0.404	(0.231)	(0.353)	(0.456)	(0.878)	(1.475)

(1) The underlying income and charges are to be understood according to Belgian Generally Accepted Accounting Principles. See section 8.3.7.17, "Transition to IFRS".
(2) EBITDA: earnings before interest, taxes, depreciation and amortization
(3) All number of shares and per share figures are calculated after stock split and before exercise of the Warrants, unless otherwise stated.
(4) The sold distribution activity is consolidated in the 1H 2005 financial statements according to IFRS 5 (available for sale activity). Only the result of the sale of the activity and the after-tax results are integrated into the financial accounts for the first half year 2005 (post-tax loss of discontinued operations). This represents a loss of €0.05 million for the period from 1 January 2005 until the date of termination of the activity.
(5) Gross margin higher compared to consolidated accounts due to inter-segment transactions. Other operating charges are higher for the same amount.
(6) IFRS including restructuring costs.
(7) Belgian GAAP including restructuring costs and IFRS 1H 2005 including the result of discontinued operations.

Cash flow, operational and other data	1H 2005 IFRS (1)	2004 IFRS	2003 IFRS
(in '000 €)			
Net cash provided by (used in) operating activities	10,820	1,139	1,734
Net cash provided by (used in) investing activities	2,033	(5,348)	(5,057)
Net cash provided by (used in) financing activities	(5,663)	3,903	(508)
Net increase (decrease) in cash and cash equivalents	7,190	(315)	(3,933)
Number of staff in FTE	440	458	475

(1) Only the result of the sale of the activity and the after-tax results of the Company's sold distribution activities are integrated into the accounts of the first half year 2005 (post-tax loss of discontinued operations). The cash flow statement for 1H 2005 includes the cash proceeds relating to the sale of the distribution activity.

MD&A

1H 2005

In the first half year 2005, sales increased by 24% compared to 1H 2004, which included the terminated distribution activity (1H 2004 sales of €6.8 million). This very significant improvement was the result of several years of strategic development; in Goods Identification, Zetes experienced a sustainable growth supported by recurring revenues and adoption of new technologies like voice recognition. In People Authentication, revenues on both national and international projects increased strongly.

- Goods Identification 1H 2005

At 78% of its sales in 2004 and 72% at the end of June 2005, Goods Identification continues to be the Company's primary activity. Mainly thanks to 2004 investments in voice recognition and the adoption of this technology by its customers, the Company recorded a growth of 17.7% in 1H 2005 vs 1H 2004.

• People Authentication 1H 2005

On top of its activity as smart cards producer, Zetes' early successes as system integrator in this market include the implementation of Belgian eID cards, and voter registration and card issuing kits for the Congo. Thanks to its recurring business, the partial (30%) execution of the United Nations' contract and the 2005 start of the eID roll-out, the People Authentication sales amounted to €17.1 million in 1H 2005 compared to €5.9 million in 1H 2004.

In line with the strong increase in revenue and in gross margin, the 1H 2005 EBITDA amounted to €6 million, which is equivalent to the EBITDA generated by the company for the full year 2004 (€5.8 million). The operating expenses were kept under control. Over the previous years, the Company has invested important resources in order to smoothly absorb the expected growth.

The non-cash expenses are in line with the investments done in the past. The financial costs remain high, mainly linked to the subordinated bond, the working capital credit lines and the bank fees charged for the United Nations' contract. The 1H 2005 taxes amounted to 36% of the EBT and the net profit amounted to €1.2 million.

At the end of June 2005, the Company recorded (in reduction of the Equity) a loss on foreign exchange (€0.9 million) relating to a hedging contract. This contract hedges the currency risk on revenue in $ to be received in 2H 2005.

In 1H 2005, the Net working capital requirements decreased thanks to the short payment terms negotiated with the United Nations' contract.

2004 IFRS - 2003 IFRS – 2002 Belgian GAAP

In 2004, sales were almost flat compared to 2003, with totally different situations amongst Zetes' geographical entities. Although the environment was difficult (in IT investments in particular), the gross margin increased slightly (+2.4%) thanks to recurring business and the implementation of value-add projects. By contrast, 2003 was a year of important growth; sales increased, compared to 2002, by more than 19% (Belgian GAAP).

• Goods Identification

In 2004, the entity in the Netherlands recognized a decrease in sales of €6 million, versus 2003, which obscured the positive performance of the other entities in Zetes. The Dutch entity bolstered the 2003 growth (compared to 2002) through a very important roll-out for a client active in the distribution sector.

• People Authentication

Sales in 2004 were below the expectations of Zetes' management, who foresaw the Belgian eID card roll-out to start in the beginning of 2004. In 2003, the Company executed the first part of the contract for the Belgian health cards.

The 2004 decrease in EBITDA (-4.2%) is mainly linked to the increase in employee costs (+5.1%); this is essentially a consequence of the decision to strengthen the People Authentication business (necessary investment in international business development). The other operating charges were under control (+0.5%). The 2003 EBITDA was 31.6% higher than the 2002 EBITDA (Belgian GAAP) thanks to the increase in activity relative to sales in Goods Identification and the launch of the Belgian Health Card roll-out.

Non-cash expenses decreased noticeably in 2004 (-17.2%), in goodwill impairment losses in particular. This led to an increase in operating profit. The 2003 operating profit is, in line with the 2003 EBITDA, €0.9 million above the 2002 operating profit (Belgian GAAP).

The financial costs increased in 2004 in line with the increase in the net debt of the Company, which, excluding €14 million subordinated debt, passed to €24.6 million (31/12/2004) from €19.4 million (31/12/2003). This increase resulted from the preparation of the eID roll-out and the acquisition of minority interests in different subsidiaries (IND / Zetes Multicom / Zetes Blackbird). At the end of 2002, the Company increased its capital in order to manage the expected growth. This improved the 2003 financial costs regarding 2002 (-22.9% Belgian GAAP).

The 2004 taxes represented an income of €0.5 million compared to a charge of €0.3 million in 2003. Zetes took into consideration tax credits insofar as their probable use was very high.

The net result amounts respectively to -€1.1 million (2004), -€1.4 million (2003) and -€4.5 million (2002). The negative results in 2003 and 2004 originate in the significant financial charges associated with the highly leveraged structure of the Company's balance sheet, in the underutilization of production capacities available in People Authentication, and finally in the underperformance of the distribution activity.

Sale of distribution activity

In April 2005, Zetes sold its Goods Identification distribution activity (EDC UK) to a US company, generating a net cash of €3.6 million. The distribution activity generated revenues of €13.2 million in 2004, mainly in the UK. The sale of this distribution activity will have no operational impact on Zetes' Goods Identification activities.

The effects of this divestment are visible as of 1H 2005, such as a decrease in Zetes' indebtedness. The result of the sale of the Company's interest in EDC UK and the after-tax results of this subsidiary, up until the date of termination, are integrated in the 1H 2005 P&L (post-tax loss of discontinued operations: €0.05 million).

Acquisitions

In order to become a leading pan-European system integrator, Zetes acquired 6 companies in Goods Identification between 1998 and 2001 and one in People Authentication. As a result, Zetes significantly expanded its footprint from Belgium alone to 8 European countries (Belgium, France, Germany, Ireland, The Netherlands, Portugal, Spain, and the United Kingdom). In most cases, agreements were made to purchase any remaining minority shares at a later stage, at a price typically based on performance. The last minority shares were acquired in 2004. See also section 6.9.

Risk factors

The Company's and Zetes' business is subject to several risks of which the following are considered to be the major ones:

- technology evolutions and competition;
- unexpected changes in government policies and spending, and customer investment cycles;
- the project driven nature of Zetes' business model, especially in People Authentication.

These and other risks related to the Company's and Zetes' business and relating to the Offering are described in the section "Risk Factors".

Further information

Capital

Prior to the Offering and before the exercise of the Warrants, the Company's capital amounted to €19,254,476 represented by 3,084,770 registered ordinary shares without par value. The capital is fully paid up.

Articles of Association

The restated Articles of Association of the Company will be dated 4 November 2005. They will provide amongst others for specific rules relating to the management of the Company, its shareholders' meeting (including rules with respect to the right to attend and vote at general shareholders' meeting), and the Company's winding-up (see section 3.2 and 3.4). The entering into force of certain of the provisions of the Company's articles of associations is subject to the completion of the Offering (e.g. provisions with respect to the authorized capital or the shares buy-back).

Information available to the public

Documents disclosed in accordance with applicable laws are available for consultation at the registered office of the Company and/or on www.zetes.com.

RISK FACTORS

RISKS RELATED TO THE COMPANY'S BUSINESS

Risk related to technology evolutions and competition

Zetes' business environment is characterized by evolution and convergence of technologies, complexity and high competition. The industry has been characterized by the entrance of new technologies such as wireless communications, RFID *(see "Business glossary")*, voice technology, smart card technologies, biometrics, and secure personalization technologies. The changing competitive landscape is one of the main issues facing the Auto-ID industry. Zetes competes with other companies based on several factors, including knowledge of these new technologies, completeness of product offering, reputation, geographic presence, project execution skills, and pricing. For each product, technology and service, there are competing firms, some with resources greater than Zetes'. The Company's success depends on its ability to establish a competitive position with respect to all of these factors. Zetes believes that its approach to the Auto-ID industry is unique.

There can be no assurance that the Company's competitors will not succeed in developing solutions that are less costly or more effective than Zetes', or that customers will not prefer solutions, technologies or products offered by Zetes' competitors.

Risk related to unexpected changes in government policies and spending, and customer investment cycles

Zetes is a system integrator active in the Auto Identification (Auto-ID) industry. Consequently, the Company's future results will be dependent upon the evolution of this industry. Based on market research data on the Auto-ID industry (see also chapter 5 "Zetes' activities"), the Company expects that industry growth will mainly be driven by:

- increased need for real-time data collection and management;
- increased need for system integration services;
- ongoing adoption of new technologies such as voice technology and RFID;
- government investments in e-government;
- investments of national and supra-national institutions in increased homeland security following 9/11 and recent terrorist threats.

However, unexpected changes in government policies and spending, customer investment cycles, major developments at the manufacturer level, and market technology adoption may impact these industry drivers, and, as a consequence, influence the Company's results.

Risk related to the project driven nature of Zetes' business model

Uncertainties related to recurrence and growth of Zetes' revenues and results

The success of Zetes' business model and the resulting growth profile will be dependent upon the Company's ability to win new projects or renew existing projects. In the People Authentication market, the challenge will be to leverage its existing, proven knowledge to obtain new projects in the EMEA (Europe, Middle East and Africa) region. In the Goods Identification market, this risk will be limited due to the abundance of possible projects and Zetes' leading position in Europe.

Risk related to investments and efforts made prior to winning a project in the People Authentication market

Winning public contracts requires significant efforts (management time) and in some cases, investments without guarantee of success.

Project execution risk

Auto-ID project contracts sometimes require significant investments that need to be pre-financed, in some cases, by Zetes. In the People Authentication market and for government projects in particular, lengthy decision making processes (political, budgeting, and planning approvals) may require Zetes to commit significant resources during project execution without any certainty regarding the outcome and the timing of the associated revenues. This may increase sales and profit volatility from period to period.

Reputation risk

The preservation of Zetes' reputation is critical. In the People Authentication market, in particular, Zetes delivers services to governments, public bodies and supra-national institutions. The visibility thereof and its ability to execute these contracts successfully could have an important impact on Zetes' reputation.

Risk related to attracting and retaining good staff

Given the complexity and high degree of specialization of its activities, Zetes needs highly trained staff with in-depth technological and market knowledge. Zetes operates in a competitive employment market. Zetes' success will continue to depend in part on the management team and other key personnel. Although Zetes believes that it will be able to attract and retain skilled and experienced personnel, there can be no assurance that it will be able to do so.

Risk related to the protection of confidential information

In connection with its personalization services, the Company routinely handles confidential information belonging to third parties. In the Belgian eID project, for example, the Company receives information relating to the privacy of the user. Although its personalization activities have been accredited with the principal security certifications available from industry organizations and bodies, the Company cannot guarantee that it will be able to prevent every attempt, internal or external, to breach its security systems and misappropriate and fraudulently use confidential data. If this were to occur, even if its activities met all of the security standards and criteria adopted by the industry, the Company could be forced to defend itself against claims that it is liable for failure to protect confidential information adequately. Such a defense might be time-consuming and expensive. Customers and third parties could also attempt to seek compensation from the Company. Finally, a breach of security systems could also adversely affect the Company's reputation, particularly in the public sector, which it has targeted as an important market.

Risk related to the delivery of products and services

Zetes' offered solutions may integrate various products, technologies and services (hardware and/or software), which may contain hidden manufacturing defects or programming bugs. As these products, technologies and services represent substantial investments and changes in business operations for its customers, serious defects or errors could harm the Company's reputation and extend the time-to-market, while also requiring it to carry out expensive and time-consuming repairs. Such manufacturing or functional defects could also cause losses to customers, in which case customers could attempt to seek compensation from the Company. These claims could be time-consuming and costly to defend and generate unfavorable publicity, causing the Company to lose customers.

Although its sales and services agreements typically contain provisions designed to limit its exposure to product liability claims, certain laws or unfavorable judicial decisions could limit the effectiveness of these limitation of liability provisions. The Company also has product liability insurance that it believes is consistent with industry practice but it cannot guarantee that its present insurance coverage is sufficient to meet a product liability claim against the Company or that it will be able to obtain or maintain insurance on acceptable terms or at appropriate levels in the future.

Risk related to exposure to credit on accounts receivable

Zetes is exposed to credit risk on accounts receivable from certain of its counterparts. Part of Zetes' trade receivable accounts are currently covered by collateral or credit insurance. Moreover, many of Zetes' clients are large companies or public institutions. For the remainder, Zetes bears the risk that one of its counterparts will be unable to pay against its trade receivable account. In the event that any of the Zetes' current or future large counterparts are unable to pay against their trade receivable accounts, the Company could suffer a decline in profitability. Although Zetes has procedures to limit its exposure to credit risk from its counterparts, there is no assurance that it will be able to limit its potential loss of proceeds from clients who are unable to pay in a timely manner.

Risk related to acquisitions

Acquisitions have been and still are part of the Company's growth strategy in Goods Identification. Despite the fact that Zetes carefully investigates every acquisition, the risk remains, amongst others, that corporate cultures do not match, expected synergies do not fully realize, restructurings prove to be more costly than initially anticipated, and acquired companies prove to be more difficult to integrate than foreseen.

Risk related to Zetes' international activities

Zetes has substantial international operations and is therefore subject to certain risks, which may include general economic conditions and/or unfavorable political, regulatory, labor and/or tax conditions in other countries. Accordingly, there is a risk related to the differing legal and regulatory requirements and the social, political and economic conditions of many jurisdictions. Risks inherent in international operations include, amongst others, the following:

- agreements may be difficult to enforce and receivables difficult to collect through a foreign country's legal system;
- foreign countries may impose additional withholding taxes or otherwise tax Zetes' foreign income, impose tariffs or adopt other restrictions on foreign trade or investment, including currency exchange controls;
- general economic conditions, in the countries in which Zetes operates, could have an adverse effect on the earnings from operations in those countries;
- unexpected adverse changes in foreign laws or regulatory requirements may occur, including those regarding export duties and quotas.

Although over 90% of Zetes' sales in 2004 were realized in the European Economic Union, there can be no assurance that this risk will not have an adverse effect on future operating results.

Risk related to currency fluctuations

Zetes is subject to risks of currency exchange to the extent that some of its revenues are received in currencies other than the currencies of the Company's related costs. Currency fluctuations between the euro and the other currencies in which the Company does business could cause foreign currency transaction gains and losses. The Company cannot predict the effects of exchange rate fluctuations on its future operating results. However, Zetes' European focus limits its exposure to foreign exchange risks. Sales are mainly in euro, and to some extent in UK pound and US dollar. Zetes' treasury department uses forward exchange contracts and, to a lesser extent, currency options to hedge its exposure to exchange rate fluctuations. Significant sales projects usually result in separate hedge contracts with maturities specific to the sales project.

RISKS RELATED TO THE OFFERING

Absence of liquid public market

Prior to the Offering, there has been no public market for the Company's shares and VVPR strips and an active public market for the shares and VVPR strips may not develop or be sustained after the Offering. The Offer Price of the Offered Shares will be determined by the Joint Global Coordinators in agreement with the Company and the Selling Shareholders on the basis of a book-building procedure in which only institutional investors can participate. The Offer Price may not be indicative of future market prices, which may fall below the Offer Price.

Future dilution

The Company may decide to raise capital in the future through public or private (convertible) debt or equity securities, or rights to acquire these securities, and exclude or limit the pre-emption rights pertaining to the then outstanding shares. If the Company raises significant amounts of capital by these or other means, it could cause significant dilution for its existing shareholders.

Volatility of the share price

Numerous factors, in addition to other risk factors described in this Prospectus, may have a significant impact on the market price and volatility of the Offered Shares, including:

- announcements of new contracts, technological innovations, new commercial products or collaborations by Zetes' competitors or Zetes itself;
- developments concerning proprietary rights, including patents;
- litigation; or
- economic, monetary and other external factors.

Risk related to "as if-and-when-issued" trading

As the shares of the Company will be listed and traded on Euronext on an "as if-and-when-issued" basis as of the Listing Date until the envisaged Closing Date, Euronext may annul all transactions effected in the shares if the Offered Shares are not issued or delivered on the envisaged Closing Date. Investors that wish to enter into transactions in the Shares prior to the envisaged Closing Date, whether such transactions are effected on Euronext or otherwise, should be aware that the Closing Date may not take place on 24 November 2005, or at all, if certain conditions or events are not satisfied, are waived or do not occur on or prior to such date. Such conditions include the receipt of officers' certificates and legal opinions and such events include the suspension of trading on Euronext or a material adverse change in the Company's financial condition or business affairs or in the financial markets. Euronext has indicated that it will annul all transactions effected in the shares of the Company if the Offered Shares are not issued on the envisaged Closing Date. Euronext has indicated it cannot be held liable for any damage arising from the listing and trading on an "as if-and-when-issued" basis as of the Listing Date until the envisaged Closing Date.

No minimum amount for the Offering

The Company has the right to proceed with a capital increase in a reduced amount. No minimum number of shares has been set for the Secondary Offering. The actual number of Offered Shares will be confirmed in the Belgian financial press together with the Offer Price. Therefore, (i) only a reduced number of shares could be available for trade on the market, which could limit its liquidity and (ii) the Company's financial means in view of the uses of proceeds as described in section 2.2.3 might be reduced. The Company might therefore reduce its level of investment or have to look for further external funding. However, irrespective of the amount of the proceeds received by the Company in the Primary Offering, the €14 million bonds issue will be repaid prior to the Closing Date in cash as a result of the exercise of the Warrants by the Warrant holders for an amount of €14 million.

Significant shareholders

Zephir and Cobepa will each remain important shareholders of the Company after the Offering and will thus each have important voting rights at the Company's shareholders' meetings.

Zephir and Cobepa have concluded a term sheet containing provisions, which will be materialized in a shareholders' agreement, to which the Company will not be a party, that will apply as from the Closing Date and in which the main provisions are:

- minimum number of directors: each party will vote in favor of a minimum number of candidate directors proposed by the other provided the latter holds at least 10% of the votes cast at a specific shareholders' meeting (see section 4.2.1);
- consultation: each party is free to use its voting rights as it deems appropriate and therefore Zephir and Cobepa have no agreement to control the Company; however, they have agreed to consult about the strategic decisions to be taken by the Company;
- priority right: the parties have a priority right on the shares that the other party wishes to transfer according to certain conditions; however the first 25% of each party's shareholding immediately after the Offering will not be subject to this priority right; and
- after the initial public offering, the Company's dividend policy will be to pay out dividends for an amount of about one third of its net profit before goodwill impairment.

Therefore, (i) the ability of other shareholders to influence certain shareholders' decisions may be limited; (ii) the interests of each of Zephir and Cobepa in these decisions may differ from those of the Company's other shareholders and (iii) a change of control of the Company may be hindered.

DISCLAIMERS AND NOTICES

NO REPRESENTATION

No dealer, sales person or other person has been authorized to give any information or to make any representation in connection with the Offering and listing that is not contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized or acknowledged by Zetes or Fortis Bank, KBC Securities or Dexia Bank.

Statements made in this Prospectus are valid on the date set forth on the cover page of this Prospectus. The delivery of this Prospectus or the completion of the Offering and listing will not imply under any circumstance that there have been no changes in the affairs or financial situation of Zetes since the date of this Prospectus, or that material information contained in this document is correct after the date of this Prospectus. In accordance with Belgian law, if a significant new fact occurs between the date of this Prospectus and the completion of the Offering that could affect investors' assessment of the Offered Shares, this new fact will need to be mentioned in an addendum to this Prospectus. The addendum shall be subject to approval by the Belgian Banking, Finance and Insurance Commission *(Commissie voor het Bank-, Financie- en Assurantiewezen / Commission Bancaire, Financière et des Assurances)*, hereinafter "the CBFA", in the same manner as the Prospectus and shall be made public as shall be determined by the CBFA.

DECISION TO INVEST

In making an investment decision regarding the shares offered herein, potential investors must rely on their own examination of Zetes and the terms of the Offering, including the risks and merits involved. Any summary or description set forth in this Prospectus of legal provisions, corporate structurings or contractual relationships is for information purposes only and should not be construed as legal or tax advice as to the interpretation or enforceability of such provisions or relationships. In case of any doubt relating to the contents or the meaning of the information contained in this document, prospective investors should consult an authorized or professional person specialized in advice on the acquisition of financial instruments. The shares have not been recommended by any federal or state securities commission or regulatory authority in Belgium or elsewhere.

CERTAIN RESTRICTIONS ON THE OFFERING AND THE DISTRIBUTION OF THIS PROSPECTUS

The Offering and the distribution of this Prospectus may be restricted by law in certain jurisdictions outside Belgium. Zetes does not represent that this Prospectus may be lawfully distributed in jurisdictions outside Belgium or that the shares may be lawfully offered in compliance with any applicable registration or other requirements in jurisdictions outside Belgium, or pursuant to any exemption available thereunder. Zetes does not assume any responsibility for such distribution or Offering. Accordingly, the Offered Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any advertising or other Offering materials may be distributed or published in any jurisdiction outside Belgium, except in circumstances that will result in compliance with any applicable laws and regulations. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the shares of Zetes to any person in any jurisdiction in which it is unlawful to make such offer or solicitation to such person. Persons in whose possession this Prospectus or any of the shares come, must inform themselves about, and observe, any such restrictions.

The Offered Shares have not been and will not be registered under the Securities Act of the United States of America. Subject to certain exceptions, the shares may not be offered, sold or delivered in the United States of America (US), or to, for the account or benefit of, US persons, except in certain transactions exempt from the registration requirements of the Securities Act. The terms used in this paragraph have the meanings given to them by Regulation S. The Offered Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the US or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Offered Shares or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offense in the US.

Zetes, the Joint Global Coordinators and the Co-Lead Manager have not authorized any offer of the shares to the public in the United Kingdom within the meaning of the Financial Services and Markets Act 2000 ("FSMA") such that an approved prospectus would be required to be made available under Section 85 of FSMA. The Offered Shares shall not be offered or sold to persons in the United Kingdom, except to persons who fall within the definition of "qualified investor" as that term is defined in Section 86(1) of FSMA or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom in respect of which an approved prospectus is required to be made available under Section 85 of FSMA. The Joint Global Coordinators and Co-Lead Manager should only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of FSMA) in connection with the issue or sale of any shares in circumstances in which Section 21(1) of FSMA would not apply. The Joint Global Coordinators and Co-Lead Manager should comply with all applicable provisions of FSMA with respect to anything done by them in relation to the shares in, from or otherwise involving the United Kingdom.

Neither this Prospectus nor any other material relating to the Offering has been submitted for clearance by the *Autorité des marchés financiers* in France. The Offered Shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France.

The Offered Shares have not been and will not be registered under the Securities and Exchange Law of Japan. Accordingly, no person may offer or sell, directly or indirectly, any Offered Shares in Japan, to, or for the benefit of, any resident of Japan, including any corporation or other entity organized under the laws of Japan or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, any person resident in Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.

The Offered Shares may not be offered, sold, transferred or delivered in or from the Netherlands, as part of their initial distribution or as part of any re-offering, and neither this Prospectus nor any other documents or materials relating to the Offering or the Offered Shares may be distributed in or from the Netherlands, other than to individuals or legal entities that trade or invest in securities in the conduct of their profession or trade (which include banks, investment institutions, securities intermediaries, insurance companies, pension funds, other institutional investors and treasury departments and finance companies of large enterprises), in which case, it must be made clear, upon making the offer and from any documents or advertisements in which a forthcoming offering of the Offered Shares is publicly announced, that the Offering is exclusively made to said individuals or legal entities.

The Offering has not been and will not be registered with the *Comisión Nacional del Mercado de Valores* in Spain. Accordingly, no Offered Shares will be offered or sold in Spain nor may this Prospectus or any other documents or material relating to the Offering be distributed or targeted at Spanish resident investors, except in compliance and in accordance with the requirements of the Spanish Securities Market Law 24/1998 and the Royal Decree 291/1992 on Issues and Public Offers of Securities, both as amended, and any regulation issued thereunder.

It is the responsibility of any person not resident in Belgium who wishes to take part in this Offering to ascertain that the legislation applicable in his or her country of residence is complied with, and that all other formalities that may be required are fulfilled, including the payment of all costs and levies.

FORWARD-LOOKING INFORMATION

This Prospectus contains forward-looking statements, forecasts and estimates made by the management of the Company with respect to the anticipated future performance of Zetes and the market in which it operates. Certain of these statements, forecasts and estimates can be recognized by the use of words such as, without limitation, “believes”, “anticipates”, “expects”, “intends”, “plans”, “seeks”, “estimates”, “may”, “will” and “continue” and similar expressions. They include all matters that are not historical facts. Such statements, forecasts and estimates are based on various assumptions (amongst others with respect to the profit forecast and estimates, see chapter 7) and assessments of known and unknown risks, uncertainties and other factors, which were deemed reasonable when made but may or may not prove to be correct. Actual events are difficult to predict and may depend upon factors that are beyond the Company's control. Therefore, actual results, the financial condition, performance or achievements of the Company, or industry results, may turn out to be materially different from any future results, performance or achievements expressed or implied by such statements, forecasts and estimates. Factors that might cause such a difference include, but are not limited to those discussed in the section “Risk factors”. Given these uncertainties, no representations are made as to the accuracy or fairness of such forward-looking statements, forecasts and estimates. Furthermore, forward-looking statements, forecasts and estimates only speak as of the date of the Prospectus. The Company disclaims any obligation to update any such forward-looking statement, forecasts or estimates to reflect any change in the Company’s expectations with regard thereto, or any change in events, conditions or circumstances on which any such statement, forecasts or estimate is based, except to the extent required by Belgian law.

INDUSTRY DATA, MARKET SHARE, RANKING AND OTHER DATA

Unless indicated otherwise in this Prospectus, industry data, market share data, ranking and other data contained in this Prospectus are based on independent industry publications, on reports by market research firms and on other independent sources or on the Company’s management’s own estimates, believed by management to be reasonable. The information provided by third parties has been correctly reflected in the Prospectus and insofar as the Company knows or could determine on the basis of this published information, no data have been omitted which would render the published information inaccurate or misleading. The Company, the Joint Global Coordinators and Co-Lead Manager and their respective advisors have not independently verified this information. Furthermore, market information is subject to change and cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey of market information. As a result, prospective investors should be aware that the Company cannot guarantee that industry data, market share, ranking and other similar data in this Prospectus, and estimates and beliefs based on such data, are correct.

ROUNDING OF FINANCIAL AND STATISTICAL INFORMATION

Certain financial and statistical information in this Prospectus have been subject to rounding adjustments and to currency conversion adjustments. Accordingly, the sum of certain data may not be equal to the expressed total.

1. GENERAL INFORMATION AND INFORMATION CONCERNING RESPONSIBILITY FOR THE PROSPECTUS AND FOR AUDITING THE ACCOUNTS

1.1. RESPONSIBILITY FOR THE CONTENT OF THE PROSPECTUS

The Company, represented by its board of directors, assumes responsibility for the content of this Prospectus. The following parts of the Prospectus have been drafted on the basis of information provided by the Selling Shareholders and consisting of the following: (i) the description of the Selling Shareholders and their respective shareholding in the Company; (ii) any statements regarding the Selling Shareholders' intentions with respect to the Secondary Offering including, without limitation, future transfers and compliance with restrictions relating thereto; (iii) the description of the terms and structure of the Offering and Underwriting with respect to the Secondary Offering; (iv) the biographies of the Company's existing directors who were nominated by the Selling Shareholders; (v) the description of the Over-allotment Option granted by the Selling Shareholders to the Underwriters. The Company declares that, to the best of its knowledge, the information contained in this Prospectus is factually accurate in all material respects and contains no omission that would make any statement made therein materially misleading and that it has taken all reasonable care to ensure that this is the case.

The Underwriters make no representation or warranty, express or implied, as to the accuracy or completeness of the information in this Prospectus, and nothing in this Prospectus is, or shall be relied upon as, a promise or representation by the Underwriters.

This Prospectus is intended to provide information to potential investors in the context of and for the sole purpose of evaluating a possible investment in the Offered Shares. It contains selected and summarized information, does not express any commitment or acknowledgement or waiver and does not create any right expressed or implied towards anyone other than a potential investor. It cannot be used except in connection with the Offering. The content of this Prospectus is not to be construed as an interpretation of the rights and obligations of Zetes, of the market practices or of contracts entered into by Zetes.

1.2. RESPONSIBILITY FOR AUDITING THE ACCOUNTS

Dupont, Ghyoot, Koevoets, Peeters, Rosier & Co Réviseurs CVBA, a civil company, with the form of a commercial company *(burgerlijke vennootschap met handelsvorm / société civile à forme commerciale)* organized and existing under the laws of Belgium, with registered office at Bovenberg 124, 1150 Brussels, Belgium, represented by Mr. Thierry Dupont, of Belgian nationality, having its offices at Bovenberg 124, 1150 Brussels, Belgium, and member of the economic interest grouping HLB Belgium has been elected as statutory auditor of the Company for a term of three years ending immediately after the closing of the general shareholders' meeting to be held in 2008 that will have deliberated and resolved on the financial statements for the fiscal year ended on 31 December 2007.

The statutory financial statements of the Company as of 31 December 2002 and 31 December 2003 and for the financial years then ended were prepared respectively in accordance with generally accepted accounting principles in Belgium or Belgian GAAP. The consolidated financial statements of the Company as of 31 December 2004 and for the financial year then ended as well as the figures for the six-month period ending 30 June 2005, have been prepared in accordance with the International Financial Reporting Standards (IFRS). The consolidated financial statements for the year ending 31 December 2003 have been restated in accordance with IFRS for comparison purposes.

The respective statutory and consolidated financial statements have been audited by Dupont, Ghyoot, Koevoets, Peeters, Rosier & Co Bedrijfsrevisoren / Réviseurs CVBA, represented by Mr. Thierry Dupont, who delivered unqualified opinions. The interim financial statements have been subject to a limited review by the auditor.

1.3. APPROVAL OF THE PROSPECTUS

On 27 October 2005, the CBFA, approved this Prospectus for the purposes of the public offering in Belgium in accordance with Article 14 of the Belgian Act of 22 April 2003 on the public offering of securities. The CBFA's approval does not imply any judgment on the merits or the quality of the Offering, the Offered Shares or the Company.

This Prospectus has been prepared in the English, French and Dutch languages. The Company is responsible for verifying the consistency between the English, French and Dutch versions of the Prospectus. In connection with the public offering in Belgium, only the Dutch and French versions of the Prospectus are legally binding. The English version is deemed to be a translation of the French en Dutch versions of the Prospectus.

The Offering and this Prospectus have not been submitted for approval to any supervisory body or governmental authority outside Belgium.

1.4. LEGAL PUBLICATIONS

The notice required by Article 13, § 1 of the aforementioned Belgian Act of 22 April 2003 was published in the Belgian financial press on 8 November 2005. All publications with regard to the Offering will be made in the Belgian financial press.

1.5. AVAILABLE INFORMATION

1.5.1. Prospectus

The Prospectus is available in Dutch, French and English. This Prospectus will be made available to investors at no cost at the registered office of the Company at Da Vinci Science Park, Rue de Strasbourg 3, 1130 Brussels, Belgium, and can be obtained upon simple request from KBC Telecenter at 078 353 353, from CBC Banque Info Services at 0800 920 20, from Fortis Bank at 0800 903 01, from Bank Degroof at 02 287 97 11 or from Dexia Bank at 0800 321 00. Subject to certain conditions, this Prospectus is also available, for information purposes only, on the internet at the following websites: www.zetes.com, www.kbcsecurities.be, www.fortisbank.be/beleggen or www.fortisbanque.be/investir, www.petercam.be, www.degroof.be and www.dexiainvestor.be.

Posting this Prospectus on the internet does not constitute an offer to sell or a solicitation of an offer to buy any of the shares to any person in any jurisdiction in which it is unlawful to make such offer or solicitation to such person. The electronic version may not be copied, made available or printed for distribution. This Prospectus is only valid in its original printed version circulated in Belgium in compliance with applicable laws. Other information on the website of the Company or any other website does not form part of the Prospectus.

1.5.2. Company documents and other information

The Company must file its (restated and amended) articles of association and all other deeds that are to be published in the annexes to the Belgian State Gazette with the clerk's office of the Commercial Court of Brussels (Belgium), where they are available to the public. A copy of the articles of association will also be available on the Company's website.

In accordance with Belgian law, the Company must prepare annual audited statutory and consolidated financial statements. The annual statutory and consolidated financial statements and the reports of the board of directors and statutory auditor relating thereto are filed with the Belgian National Bank, where they are available to the public. Furthermore, as a listed company, the Company will have to publish annual and semi-annual financial releases as well as a report including the annual financial statements, the auditor's statutory report and the report of the board of directors of the Company. These releases will generally be published in the Belgian press in the form of a press release. Copies thereof and the annual report will also be available on the Company's website.

The Company will also have to disclose price sensitive information and certain other information to the public. In accordance with the Belgian Royal Decree of 31 March 2003 (as amended) relating to the obligations of issuers of financial instruments admitted to trading on a Belgian regulated market, such information and documentation will be made available through the Company's website, press release and the communication channels of Euronext Brussels.

The Company's website can be found at www.zetes.com.

2. GENERAL INFORMATION RELATING TO THE OFFERING AND ADMISSION TO LISTING ON THE EUROLIST BY EURONEXT BRUSSELS

2.1. INFORMATION RELATED TO THE CAPITAL INCREASE

At its meeting to be held on 4 November 2005, the general shareholders' meeting of the Company will decide to increase the Company's share capital in cash through the issuance of New Shares, subject to the completion of the Offering and the admission to listing of the Company's shares. The New Shares offered in the Offering will be issued within the framework of the Primary Offering.

The final issuance price of these New Shares is to be determined through a book-building procedure with institutional investors. The number of New Shares to be issued in the Primary Offering shall be determined by dividing up to €30 million (assuming the Primary Offering is subscribed in full) by the Offer Price.

The Company intends to offer New Shares in an aggregate subscription amount of up to €30 million (including share premium), but also reserves the right to offer less. Whether or not the Primary Offering is fully subscribed, the Joint Global Coordinators may proceed with over-allotments covered by Existing Shares, with a view to stabilization after the start of the trading. See also section 2.7 below.

In connection with the issuance of the above shares, each of the shareholders and Warrant holders of the Company will have decided to renounce to their preferential subscription right as existing shareholders or Warrant holders.

2.2. KEY INFORMATION

2.2.1. Working capital statement

Working capital (in '000 €)	1H 2005 IFRS	2004 IFRS	2003 IFRS	2003 Belgium GAAP(1)	2002 Belgium GAAP(1)
Assets					
Inventory	21,247	11,095	11,371	14.351	13.265
Trade Receivables	24,909	24,571	22,496	24.014	22.621
Other Receivables	4,288	4,615	3,381	1.037	1.287
Prepayments	2,853	1,511	941	941	659
Total	**53,297**	**41,793**	**38,189**	**40.343**	**37.832**
Liabilities					
Suppliers	35,008	14,515	12,585	12.565	14.648
Advances received	5,525	6,343	7,479	7.645	5.693
Other creditor (publ adm / employees / oth)	6,999	7,552	6,097	5.793	5.554
Other current liabilities	671	782	1,082	1.082	1.205
Total	**48,203**	**29,192**	**27,243**	**27.085**	**27.100**
Net working capital	**5,094**	**12,601**	**10,946**	**13.258**	**10.732**

(1) The underlying assets and liabilities are to be understood according to Belgian Generally Accepted Accounting Principles. see section 8.3.7.17, "Transition to IFRS".

The Company has simulated, on a consolidated basis, various business development scenarios for the coming 12 months, and is confident that the business will generate sufficient cash-flow to meet its present requirements and cover the working capital needs. The highest growth scenarios will not be put into action without a sufficiently strong equity position. Growth of its People Authentication activities could require temporary large amounts of working capital. This could be funded by additional bank loans. As described in section 2.2.3, one of the principal purposes of the Offering, is to provide the Company with sufficient working capital to support the Company's growth.

2.2.2. Capitalization and indebtedness

The following table sets forth Zetes' capitalization up until 30 June 2005. This table should be read in conjunction with the Company's audited consolidated financial statements in IFRS, including the notes thereto, and with the "Management Discussion and Analysis of Financial Condition and Results of Operations" (see section 7.). The subordinated bonds will be repaid and the Warrants will be exercised prior to the Closing Date. The consideration paid by the Warrant holders pursuant to the exercise of the Warrants is €14 million.

Total Equity (in '000 €)	**1H 2005 IFRS**	**2004 IFRS**	**2003 IFRS**	**2003 Belgian GAAP[1]**	**2002 Belgian GAAP[1]**
Total equity	**9,593**	**9,095**	**11,137**	**8,885**	**11,053**
Equity attributable to equity holders of the parent	**9,438**	**8,956**	**10,106**	**7,748**	**10,699**
Issued capital	19,293	19,293	19,293	19,293	19,293
Share capital	19,254	19,254	19,254	19,254	19,254
Share premium	38	38	38	0.038	38
Reserves	(10,188)	(9,249)	(7,781)	(8,834)	(4,045)
Losses not recognized in P&L on foreign currency exchange	(903)				
Result of the period	1,236	(1,088)	(1,406)	(2,710)	(4,549)
Minority interest	**155**	**139**	**1,031**	**1,137**	**354**
Financial debt [2]	**21,028**	**26,242**	**21,308**	**21,257**	**20,002**
Subordinated interest	**1,949**				
Cash and cash equivalents	**(8,797)**	**(1,607)**	**(1,922)**	**(1,916)**	**(5,861)**
Net financial debt [2]	**14,181**	**24,634**	**19,386**	**19,341**	**14,141**
Subordinated debt	**14,000**	**15,236**	**14,000**	**14,000**	**14,000**
Total net financial debt	**28,181**	**39,870**	**33,386**	**33,341**	**28,141**
Gearing ratio (Net Debt/Equity)	**293.8%**	**438.4%**	**299.8%**	**375.0%**	**254.6%**
Gearing Zetes methodology (net financial debt excl. subordinated debt/equity + quasi equity)	**60.1%**	**101.3%**	**77.1%**	**85.0%**	**56.5%**

[1] The underlying assets and liabilities are to be understood according the Belgian Generally Accepted Accounting Principles. See section 8.3.7.17, "Transition to IFRS".
[2] Excluding subordinated debt of €14 million.

According to Zetes' methodology, the equity includes the proceeds of the exercise of Warrants taking place before the Closing Date (see section 3.6). Consequently, the total net financial debt prior to the Closing Date will be reduced by €14 million.

The subordinated debt is neither secured nor guaranteed. The bank debt and the lines of credit are secured (pledges on assets of Zetes' group companies, pledges on the shares of the Company's subsidiaries, etc.). Leasing agreements are generally secured by the underlying assets.

In 2001, the Company issued subordinated bonds for a total amount of €14 million and Warrants (see also section 3.4.2) that entitle their holders to require the issue of Company shares for a total exercise price of €14 million. The Warrant holders have confirmed that they will exercise all their Warrants prior to the Closing Date, leading to a capital increase of €14 million. Prior to the Closing Date, the €14 million subordinated bonds will be repaid by the Company (see section 3.6).

The following tables indicate the Company's capitalization and indebtedness on 31 August 2005.

Current Financial Debt 31/08/2005 (in '000€)	**18,118**
Guaranteed	11,690 (1)
Secured	1,417 (2)
Unguaranteed / Unsecured	5,011

(1) Guarantees:
Club Deal Crédit A Tr A: Zetes Industries Shares in IND & Zetes IND International GmbH
Club Deal Crédit A Tr B: Floating charges on the Company's business for an amount of €270,000 and pledge on the Company's shares in Zetes SA & CEC SA
Club Deal Crédit B Tr A & B: Floating charges on the Company's and Zetes SA's business for an amount of €3.3 million and pledge on Zetes SA's shares in ID-All
Club Deal Crédit C: Floating charges on the Company's, Zetes SA's and CEC's business for an amount of €1,930,000
Club Deal Crédit D: Floating charges on the Company's, Zetes SA's and CEC's business for an amount of €11 million
(2) Assets secured: leased assets

Non-Current Financial Debt 31/08/2005 (in '000€)	**1,034**
Guaranteed	197 (3)
Secured	650 (4)
Unguaranteed / Unsecured	188

(3) Guarantees:
Club Deal Crédit B Tr A: Floating charges on the Company's and Zetes SA's business for an amount of €3.3 million and pledge on Zetes SA's shares in ID-All
Club Deal Crédit C: Floating charges on the Company's, Zetes SA's and CEC's business for an amount of €1,930,000
(4) Assets secured: leased assets

Subordinated Debt (1) : Principal + Interest 31/08/2005 (in '000€)	**16,132**
Unguaranteed / Unsecured	16,132

(1) Subordinated bond principal equals €14 million and interests = €2.132 million. It will be repaid prior to the Closing Date and the Warrant holders have confirmed that they will exercise all their Warrants prior to the Closing Date, leading to a capital increase of €14 million.

Shareholders' equity 31/08/2005 (in '000€)	**10.306**
a. Share Capital	19,293
b. Reserves	(8,951)
c. Other Reserves (Losses not recognized in income statement on foreign currency exchange decrease)	(36)

Net Indebtedness '000 €	**End of August 2005**
A. Cash	7,061
B. Cash equivalent	0
C. Trading securities	0
D. Liquidity	**7,061**
E. Current Financial Receivable	**0**
F. Current Bank Debt	14,036
G. Current portion of non current debt	4,006
H. Other current financial debt	77
I. Current financial debt	**18,118**
J. Net Current financial indebtedness	**11,057**
K. Non current Bank Loans	1,034
L. Bonds Issued	0
M. Other non current loans	0
N. Non current financial indebtedness (1)	**1,034**
O. Current Subordinated bond interests	2,132
P. Net financial indebtedness (1)	**14,223**
Q. Subordinated debt	**14,000**
R. Total Net indebtedness	**28,223**

(1) Excluding subordinated debt.

At the Closing Date, the subordinated debt will be repaid (see section 3.6). The Company debt position will be improved by the capital increase resulting from the exercise of the Warrants (€14 million) and, immediately thereafter, by the capital increase linked to the Offering (€30 million).

2.2.3. Background of the Offering and use of proceeds

The principal purposes of the Offering are to support the Company's growth, to increase the Company's capitalization and financial flexibility, to provide a public market for the Company's shares and to facilitate access to the public equity capital markets.

If the Primary Offering is fully subscribed, the net proceeds from the issue of New Shares in the Primary Offering (*i.e.* after commissions and offering expenses payable by the Company have been deducted) are estimated to be €27.6 million, which will be allotted to the Company. For further information on the costs and expenses of the Offering, see section 2.9.

The Company intends to use the net proceeds of the Primary Offering for working capital, capital expenditure, improvement of its financial structure and acquisitions, if and when they present themselves, and for other general corporate purposes.

More specifically, the Company intends to use the net proceeds of the Primary Offering to:
- finance the growth of its People Authentication activities, where some projects could require large amounts of working capital and/or large capital expenditures;
- make selective acquisitions of European system integrators active in the Goods Identification market;
- make, if deemed necessary, selective acquisitions in the People Authentication market in order to obtain technological competences, expertise or intellectual property; and
- reinforce the financial structure of the Company in order to gain major contracts.

The Company's board of directors and management will determine, at their sole discretion and without the need for shareholders' approval, the amounts and timing of the Company's actual investments, which will depend upon numerous factors, including trends and opportunities in the Auto-ID market, the favorable outcome of big tenders in the People Authentication market and the amount of proceeds actually raised in the Offering. The Company constantly evaluates opportunities to acquire businesses and technologies that it believes are complementary to its business activities.

The Company has not determined the amounts it plans to spend on any of the areas listed above or the timing of these investments. Accordingly, the Company will have significant flexibility and broad discretion to allot and use the net proceeds resulting from the Offering.

2.3. INTEREST OF NATURAL AND LEGAL PERSONS INVOLVED IN THE OFFERING

KBC Securities NV/SA is an affiliated company (as defined in Article 11 of the Belgian Company Code) of KBC Private Equity NV. KBC Private Equity NV holds a number of subordinated bonds and Warrants issued by the Company (see section 3.6). KBC Private Equity NV is also one of the Selling Shareholders in the Offering.

Dexia Bank NV holds a number of subordinated bonds and Warrants issued by the Company (see section 3.6). Dexia Bank NV is Co-Lead Manager of the Offering and also one of the Selling Shareholders in the Offering.

2.4. TERMS AND CONDITIONS OF THE OFFERING

2.4.1. Conditions and nature of the Offering

The Offering consists of both New Shares offered in the Primary Offering and Existing Shares offered in the Secondary Offering (including the Over-allotment Option shares), both coupons no.1 and following attached. Both types of shares will be offered as part of a single offering and on the same terms (except for the issuance of VVPR strips in connection with the New Shares and Existing Shares as described below). The Secondary Offering is subordinated to the Primary Offering and is subject to the suspensive condition (condition suspensive / opschortende voorwaarde) of the closing of the Primary Offering. In a separate offering and subject to the same subordination and suspensive condition, the Company will also offer newly issued shares combined with newly issued VVPR strips to Zetes' employees in the Employee Offering. All Offered Shares were/will be issued in accordance with Belgian law.

All New Shares offered will benefit from the right to reduced withholding tax, known as "Verminderde Voorheffing / Précompte Réduit" or "VVPR". A separate VVPR strip will represent this right. Each New Share shall have one VVPR strip, which shall be separately tradable. Amongst the Existing Shares, only the Existing Shares resulting from the exercise of Warrants will be sold with a separate VVPR strip.

The Joint Global Coordinators will be granted an Over-allotment Option, exercisable as of the first day of trading until 30 days thereafter corresponding to a maximum of 15% of the offered shares in the Primary and Secondary Offering (excluding the Over-allotment Option), for the sole purpose of allowing the Underwriters to cover over-allotments, if any. See also section 2.7. The Existing Shares covering the over-allotment will be sold without a separate VVPR strip.

The Offering of the Offered Shares consists of:

- a public offering of the Offered Shares in Belgium; and
- a private placement of the Offered Shares to institutional investors in Belgium and Europe[2].

It is expected that no less than 10% of the Offered Shares effectively allocated (excluding any shares offered under the Over-allotment Option that will be granted to the Joint Global Coordinators) will be allocated to retail investors in Belgium. However, (i) the proportion of Offered Shares allocated to retail investors may be increased and possibly substantially, if applications received from them exceed 10% of the Offered Shares effectively allocated or, conversely, (ii) such proportion may be reduced if the relative demand from institutional investors at or above the Offer Price significantly exceeds that of retail investors.

[2] *European Union and Switzerland*

For the purpose of the Offering, a retail investor shall mean (a) an individual person resident in Belgium, or (b) the legal entities in Belgium that apply for shares in an amount of €250,000 or less.

In allocating the Offered Shares, the Joint Global Coordinators will use reasonable efforts to ensure that shares with VVPR strips are delivered to individual investors resident in Belgium and to investors subject to Belgian tax on legal entitities *(impôt des personnes morales / rechtspersonenbelasting)*, in this order of priority.

The Offer Price shall be the same for institutional and retail investors. See also section 2.4.2.

2.4.2. Offer Price

The Offer Price will be a single price in euro that will apply to all investors whether retail or institutional.

The Offer Price will be determined within a price range. The Offer Price will be determined by the Joint Global Coordinators in agreement with the Company and the Selling Shareholders, on the basis of a book-building procedure during the Offering Period, in which only the institutional investors can participate, and taking into account various relevant qualitative and quantitative elements, including but not limited to the number of shares requested, the size of orders received, the quality of the investors submitting such orders and the prices at which the orders were made, as well as the market conditions at that time. The applicable Offer Price will in no event exceed the upper-end of the price range.

The applicable price range will be published in the Belgian financial press on or about 8 November 2005. The Offer Price will be determined as soon as possible after closing of the Offering Period, which is expected to take place on 21 November 2005 and will be published in the Belgian financial press on the first publishing day following its determination, which is expected to be on 22 November 2005. Both dates are subject to early closing of the Offering Period.

Retail investors in Belgium can only acquire the Offered Shares at the Offer Price and are bound to purchase the number of shares indicated in their share application, provided this is within the price range.

2.4.3. Offering Period

The Offering Period will begin on 8 November 2005 and is expected to close on 18 November 2005, unless it is closed earlier. Any early closing of the Offering Period will be announced in the Belgian financial press. The Offering Period will in any event be open for at least three trading days as of the availability of the Prospectus. The Offering Period for retail and institutional investors will be the same.

Prospective investors can submit their orders during the Offering Period, unless this period is closed prematurely. Taking into account the fact that the Offering Period may be closed earlier, investors are requested to submit their applications as promptly as possible.

2.4.4. Application procedure

2.4.4.1 General

Share applications can be submitted at the counters of the Joint Global Coordinators, Co-Lead Manager and the Selling Agents at no cost to the investor.

Investors wishing to apply for shares through intermediaries other than the Joint Global Coordinators, the Co-Lead Manager and the Selling Agents should request details of the costs which these intermediaries may charge and which they will have to pay themselves.

To be valid, share applications must be submitted, at the latest, by 4.00 p.m. Brussels time on the final day of the Offering Period.

2.4.4.2 *Retail investors*

Retail investors must indicate in their orders the number of Offered Shares they commit to acquire. Only one application per retail investor will be accepted. If the Joint Global Coordinators and Co-Lead Manager and the Selling Agents determine, or have reason to believe, that a single retail investor has submitted several orders, through one or more syndicate members, they may disregard such orders.

Retail investors are invited to introduce their orders as soon as possible at the counters of the syndicate members in Belgium.

2.4.4.3 *Institutional investors*

Institutional investors must indicate in their orders the number of Offered Shares they commit to acquire, and the prices at which they are making such orders.

Only institutional investors can participate in the book-building procedure during the Offering Period. During the book-building period, institutional investors will have to indicate how many shares they wish to obtain and at what price.

Institutional investors are invited to introduce their orders as soon as possible with the Joint Global Coordinators.

2.4.5. Allocation of the shares

2.4.5.1 *General*

The Offering consists of both New Shares offered in the Primary Offering and Existing Shares offered in the Secondary Offering, both coupons no.1 and following attached. The Secondary Offering is subordinated to the Primary Offering, and is subject to the suspensive condition *(condition suspensive / opschortende voorwaarde)* of the closing of the Primary Offering. The exact number of Offered Shares (including the shares covering the Over-allotment Option) allotted to the retail investors and the institutional investors respectively will be determined at the end of the Offering Period by the Joint Global Coordinators in agreement with the Company and will depend on the respective demand of both retail and institutional investors and on the quantitative and, for institutional investors only, the qualitative analysis of the order book.

In case of over-subscription of the Offered Shares reserved for retail, the allocation to retail will be made on the basis of objective allocation criteria (such as the use of a relative or absolute amount of shares with respect to each subscription which may be, but are not necessarily, grouped in certain tranches and in which preferential treatment may be given to subscriptions via members of the syndicate). Preferential treatment may be given to applications submitted at the branches of the Joint Global Coordinators, Co-Lead Manager and Selling Agents rather than through other financial intermediaries.

The results of the Offering, the allocation key for the retail investors and the Offer Price will be published in the Belgian financial press, which is expected to occur on or about 22 November 2005, subject to early closing of the Offering Period.

2.4.5.2 *Allocation of New Shares and Existing Shares*

a. Tax on stock exchange transactions

The acquisition of Existing Shares will, unless an exemption applies, give rise to tax on stock exchange transactions *(taks op de beursverrichtingen / taxe sur les opérations de bourse)* at a rate of 0.17% per transaction and per party, subject to a cap of €500 per transaction and per party. The subscription to New Shares will not give rise to tax on stock exchange transactions. See also section 2.13.2.4.

The Joint Global Coordinators will use reasonable efforts to ensure that the shares delivered to retail investors are New Shares. Should the total number of shares allocated to retail investors exceed the number of New Shares effectively allocated in the Offering, then the New Shares will be allocated among the retail investors on a pro rata basis.

b. VVPR strips

The New Shares will be issued together with VVPR strips, which entitle their holder to a reduced rate of Belgian withholding tax on dividends and will be separately tradable. See also section 2.13.2.6. Amongst the Existing Shares, only the Existing Shares resulting from the exercise of Warrants will be sold with a separate VVPR strip.

In allocating the Offered Shares, the Joint Global Coordinators will use reasonable efforts to ensure that shares with VVPR strips are delivered to individual investors resident in Belgium and to investors subject to Belgian legal entities tax *(rechtspersonenbelasting / impôt des personnes morales)*, in this order of priority.

VVPR strips will be separately tradable on the Eurolist by Euronext Brussels from the first day of trading of the shares, and investors who do not receive VVPR strips in the Offering may be able to purchase such instruments on the secondary market.

Except for this reasonable efforts undertaking regarding the allocation of VVPR strips, all investors may receive either New Shares or Existing Shares or a combination of both. While it is expected that retail investors will be allotted only shares with a separate VVPR strip, neither the Selling Shareholders who have granted the Over-allotment Option, the Company or the Joint Global Coordinators and Co-Lead Manager will have any liability to investors in connection with the allocation of shares, with or without a separate VVPR strip.

2.4.6. Payment, settlement and delivery of the shares and the VVPR strips

The Offer Price must be paid up in full in euro, together with any applicable stock exchange tax. For further information about applicable taxes, see section 2.13.2.4, "Tax on stock exchange transactions" and section 2.13.2.5, "Tax on the physical delivery of bearer shares".

The payment date is set at three trading days after the allocation date and is expected to occur on or about 24 November 2005 unless the Offering Period is closed earlier.

It is expected that the shares and VVPR strips will be delivered to the investors on or about 24 November 2005, which is also the payment date.

All Offered Shares and VVPR strips will be delivered through the book-entry facilities of CIK *(Caisse Interprofessionelle de depots et virements de titres / Interprofessionele effectendeposito- en girokas)*, the Belgian central securities depository. As described in section 2.4.7 below, the shares and VVPR strips will, after closing of the Offering, be available in book-entry form only. Upon request, individual bearer shares and VVPR strips will be delivered in physical form within three months after the first listing date (for related costs, see section 2.13.2.5).

2.4.7. Form of the shares and VVPR strips

All Offered Shares will have the same rights attached to them as the Company's other shares. For a further description of the Company's shares and the rights attached thereto, see section 3.4.4, "Description of rights and benefits attached to the shares", in chapter 3, "General information about Zetes and its share capital".

As described in section 2.4.6 above, all shares and VVPR strips will be delivered in book-entry form, represented by one or more global certificates that will have been filed with the CIK for safe keeping on behalf of those persons entitled to the shares and VVPR strips.

Therefore, upon delivery of the shares and VVPR strips foreseen at the latest on 24 November 2005, the shares and VVPR strips will be bearer securities in book-entry form. The shares and VVPR strips cannot yet be delivered as bearer securities in physical form. Physical certificates will be available as soon as possible and at the latest within three months after the first listing date. They will be available in the form of physical certificates representing 1, 15, 25 or 100 shares and VVPR strips or any other denomination that the Company may be able to print, with coupons no.1 and following attached. Until they are delivered in physical form, a global certificate will represent the bearer shares and VVPR strips and only book-entry transactions will be possible.

Shareholders requesting physical delivery of bearer shares and VVPR strips should take into account delivery costs amounting to €10 (+VAT) for delivery at the counters of KBC Group, to €20 (+VAT) for delivery at the counters of Fortis Bank, to €10 (+VAT) for delivery at the counters of Dexia Bank, to €20 (+VAT) for delivery at the counters of Bank Degroof and to €20 (+VAT) for delivery at the counters of Petercam. Shareholders are requested to inquire about any different costs which other financial institutions may charge and which shareholders will have to bear themselves. In addition, on the Existing Shares, a tax on the physical delivery of bearer shares equal to 0.6% of the purchase price will be due, see also section 2.13.2.5.

For shareholders who opt for registered shares, the shares will be recorded in the Company's shareholder register. Holders of registered shares may request that their registered shares be converted into bearer shares and vice versa at any time. Any costs incurred by the conversion of registered shares into bearer securities will be borne by the shareholder (see above).

All of the Offered Shares will be fully paid up upon their delivery, and freely transferable.

2.4.8. Dividends

2.4.8.1 Entitlement to dividends

The Offered Shares will be entitled to a share in the profits as of 1 January 2005, if any, and are therefore entitled to the dividend for the financial year closed on 31 December 2005 and the following financial years. For further information on the declaration and payment of dividends, see also section 2.13.2.1, "Dividends".

2.4.8.2 Dividend policy

The Company has never declared or paid any dividends on its shares. Following this Offering, the Company currently has the intention to pay out dividends for an amount of about one third of its net profit before goodwill impairment (see section 3.7.4). This policy may change in time. Any issuance of dividends will be based upon the Company's earnings, financial condition, capital requirements and other factors considered important by the Company. Belgian law and the Company's articles of association do not require a shareholders' meeting to declare dividends.

2.5. LISTING AND FIRST TRADING

An application has been made for the admission on the Eurolist by Euronext Brussels of all Existing Shares and all New Shares. The shares are expected to be listed under the symbol ZTS and international code number BE0003827442.

An application has also been made for admission of all of the VVPR strips of the Company on the Eurolist by Euronext Brussels. The VVPR strips are expected to be listed under the symbol ZTSS and international code number BE0005600714.

The Company expects trading to commence on or about 22 November 2005, unless early closing of the Offering Period occurs, and being the first trading day following the allocation date but on the latest on the Closing Date when the Offered Shares and VVPR strips are delivered to the investors. See also the underwriting agreement, referred to in section 2.6.

Prior to the Closing Date and delivery of the shares and, as the case may be, VVPR strips to the investors, the shares will be listed on an "as if-and-when-issued" basis. Investors that wish to enter into transactions in shares of the Company prior to the Closing Date, whether such transactions are effected on Euronext Brussels or otherwise, should be aware that the Closing Date may not take place on 24 November 2005 or at all if certain conditions or events referred to in the underwriting agreement are not satisfied or waived or do not occur on or prior to such date. Such conditions include the receipt of officers' certificates and legal opinions and such events include the suspension of trading on Euronext Brussels or a material adverse change in the Company's financial condition or business affairs or in the financial markets. Euronext Brussels has indicated that they will annul all transactions effected on it if the shares offered hereby are not delivered on the Closing Date.

Prior to the Offering of the shares, no public market existed for the shares and VVPR strips issued by the Company.

2.6. UNDERWRITING AGREEMENT

Subject to the right of the parties involved in the underwriting agreement not to sign such an agreement, the Company, the Selling Shareholders, the Joint Global Coordinators and the Co-Lead Manager are expected to enter into an underwriting agreement no later than upon the determination of the Offer Price, which is expected to take place prior to the publication of the result of the Offering. The conclusion of this agreement may depend on various factors including, but not limited to, the market circumstances and the result of the book-building procedure.

In the underwriting agreement, the Company and the Selling Shareholders are expected to make certain representations and warranties and to agree to indemnify the Joint Global Coordinators and the Co-Lead Manager against certain liabilities.

Subject to the forms and conditions of the underwriting agreement, the Joint Global Coordinators, *i.e.* KBC Securities and Fortis Bank, and the Co-Lead Manager, *i.e.* Dexia Bank, will severally but not jointly, agree to subscribe to and/or acquire in their own name and for the account of the investors to the following percentages of the Offered Shares and VVPR strips in the base Offering with a view to immediately distributing these shares and VVPR strips to the investors concerned:

- KBC Securities 41.66%
- Fortis Bank 41.66%
- Dexia Bank 16.68%

The Joint Global Coordinators and the Co-Lead Manager will distribute the shares and VVPR strips to investors, subject to prior issue or sale, when, as and if issued and delivered to and accepted by them, subject to the satisfaction or waiver of the conditions that are expected to be contained in the underwriting agreement, such as the receipt by the Joint Global Coordinators and the Co-Lead Manager of officer's certificates and legal opinions.

The underwriting agreement is also expected to provide that, upon the occurrence of certain events, such as the suspension of trading on Eurolist by Euronext Brussels or a material adverse change in the Company's financial condition or business affairs or in the financial markets, or other *force majeure* events, the Joint Global Coordinators and the Co-Lead Manager will have, on certain conditions and after consultation with the Company, the right to withdraw from the underwriting agreement and Offering before the delivery of the shares.

2.7. OVER-ALLOTMENT OPTION AND STABILIZATION

In connection with the Offering, the Joint Global Coordinators may, as of the date of the first listing and until 30 days thereafter, exercise the Over-allotment Option or effect transactions that stabilize or maintain the market price of the shares at levels above those that might otherwise prevail in the open market. This possibility will exist whether or not the Offering is fully subscribed. Such transactions, if any, may be effected on the Eurolist by Euronext Brussels, on the over-the-counter market or otherwise. There is no assurance that such stabilization will be undertaken and, if it is, it may be discontinued at any time and will, in any event, be discontinued 30 days after the first listing date.

If the Joint Global Coordinators create a short position in the shares in connection with the Offering, they may reduce that short position by purchasing shares in the open market. Purchases of shares to stabilize the trading price or to reduce a short position may cause the price of the Company's shares to be higher than it might be in the absence of such purchases. None of the Company or the Joint Global Coordinators make any representation or prediction as to the direction or the magnitude of any effect that the transactions described above may have on the price of the shares.

The Joint Global Coordinators may also elect to reduce any short position by exercising all or part of the Over-allotment Option granted to them. This Over-allotment Option will be exercisable as of the first listing date and until 30 days thereafter. The Over-allotment Option consists of an option that will be exercisable only to cover over-allotments, if any.

The Over-allotment Option will apply to an aggregate number of shares of a maximum of up to 15% of the allotted shares (excluding the over-allotted shares). The maximum number of shares covering the Over-allotment Option will be confirmed and published in the Belgian financial press together with the price range of the Offering.

The Over-allotment Option will apply to Existing Shares only and as follows: the Selling Shareholders granted the Joint Global Coordinators the right to purchase Existing Shares equal to an additional 15% of the number of shares offered in the Primary and Secondary Offering (not-including the Over-allotment Option). These shares will not have a separate VVPR strip.

In order to cover any over-allotments prior to the exercise of the Over-allotment Option, it is expected that the Joint Global Coordinators will enter into a stock lending agreement with the Selling Shareholders.

2.8. INTENTIONS OF THE SHAREHOLDERS

2.8.1. Selling Shareholders

The Selling Shareholders intend to sell, in the Offering, a total maximum number of 1,377,995 shares (including Over-allotment Option shares).

Shareholder	Number of shares following exercise of the Warrants but prior to the Closing Date (1)	Estimated breakdown of maximum Existing Shares offered (3)
Zephir	1,477,925	151,614
Cobepa	1,184,046	404,475
Franky Carbonez	203,500	203,500
Inducam	177,300	23,128
Sapec	221,535	221,535
E-Capital	110,414	110,414
KBC Private Equity	380,953	221,330
Dexia	38,645	38,645
Others (2)	63,350	3,354
TOTAL	3,857,668	1,377,995

(1) Assuming a pre-money valuation of €115 million
(2) Among the "Others", only Pierre Lambert (CFO) will sell shares for an amount of up to €100,000 in the Secondary Offering. He will partially use the net proceeds to subscribe to the Employee Offering. As a result thereof, the stake of Pierre Lambert in the Company, will decrease by approximately 8%.
(3) Although the maximum number of Existing Shares is fixed, the respective contribution of each shareholder may be adjusted, amongst others, based on the price of exercise of the Warrants.

The actual number of Offered Shares will be confirmed and published in the Belgian financial press together with the Offer Price.

The Selling Shareholders (see section 3.7.1) have informed the Company that they do not intend to subscribe to the New Shares in the Offering.

2.8.2. Lock-up arrangements

The number of shares available for sale in the public market following the admission to listing of the Company's shares will be limited by several transfer restrictions. These can be summarized as follows:

- The Selling Shareholders and the Company shall not, at least until 240 days after the first day of trading of the Offered Shares, except with prior written consent of the Joint Global Coordinators (which shall not be unreasonably withheld) (i) issue or sell, or attempt to dispose of, or solicit any offer to buy any shares, warrant or other securities or grant or issue any options, convertible securities or other rights to subscribe for or purchase shares or enter into any contract (including derivative transactions) or commitment with like effect or (ii) purchase any of its securities or otherwise reduce its share capital, otherwise than in accordance with an employee incentive stock option plan.
- The Joint Global Coordinators accept that any transfer of shares or rights by a Selling Shareholder to a company affiliated (as defined in Article 11 of the Company Code) to this Selling Shareholder can take place without approval by them if notified in writing to them, together with the written adherence by such affiliated company to the same lock-up undertaking until the expiration of the above mentioned 240 day-period.

2.8.3. Shareholders' intentions after the Offering

The current intention of Zephir and of Cobepa is to remain significant shareholders of the Company (see also section 3.7.3 and 3.7.4).

2.9. COSTS AND REMUNERATIONS OF INTERMEDIARIES

The Offering includes legal, administrative and other costs, registration duties in relation to the issue of new shares, remuneration of the CBFA, legal publication, management, cost of advisors, management, underwriting and selling fees of the Underwriters, expenses and discounts in relation to the Employee Offering and the initial and recurring fees payable to Euronext Brussels.

The underwriting and selling fees will be borne by the Company and the Selling Shareholders in proportion with the received gross proceeds. The costs of the Company's legal advisors, the management fees of the Underwriters, the initial and recurring fees payable to Euronext Brussels, and the costs of printing the shares will be borne by the Company. The other costs of the Offering will be borne by the Company and by the Selling Shareholders (for the latter up to €175,000). The Selling Shareholders will also bear the fees and disbursements of their own advisors and their own out-of-pocket expenses in connection with the Offering.

The fees for the underwriters are expected to be equal to 2.9% on the aggregate gross proceeds of the Offering (including any proceeds received in connection with the Over-allotment Option). The underwriting fee does not include discretionary fees, of up to 0.75% of the aggregate gross proceeds of the Offering (including any proceeds received in connection with the Over-allotment Option) that the Company and/or some or all of the Selling Shareholders, may award to any or all of the underwriters in connection with the Offering. These discretionary fees will be determined on the basis of qualitative and quantitative criteria to be determined.

On the basis of the foregoing, the Company's share of the costs with respect to the Offering are estimated to be €2.4 million in the aggregate.

2.10. FINANCIAL SERVICE

The financial service for the shares of the Company will be provided in Belgium by KBC Bank and Fortis Bank free of charge for the shareholders. Should the Company alter its policy in this matter, this will be announced in the Belgian financial press.

2.11. LEGISLATION AND COMPETENT COURTS

The Offering is subject to Belgian law. The courts and tribunals of Brussels have sole jurisdiction should any dispute arise in relation to the Offering.

2.12. EMPLOYEE OFFERING

At the time of the Offering, in a separate offering and subject to the suspensive condition of closing of the Offering, an Employee Offering will be held as follows:

- the Company will offer its employees and the employees of its subsidiaries to subscribe for a maximum of up to €1.5 million in new shares with VVPR-strips. The consideration paid by the employees will be equal to the Offer Price less a discount of 16.66%, which will be applied to the price or will be paid separately. Shares will not be transferable for two years.
- the Company will also offer for free to certain employees and managers of Zetes to subscribe to warrants in the framework of a stock option plan. Warrants may be exercised, at the Offer Price, starting from the third and up to the seventh year after the Closing Date. The maximum number of shares that may be issued if all warrants are subscribed and exercised is 4.5% of all shares after the Closing Date and after closing of the Employee Offering. If all these warrants are not subscribed in the framework of the initial public offering of the Company, the board of directors of the Company will have the option to offer within one year after the Offering the outstanding warrants to employees and managers of the Company. These warrants will be exercised at the closing price of the Company's share the day before the subscription or the average price of the Company's share on a period of 30 days before the subscription of the warrants, based on a decision of the board of directors of the Company prior to the subscription of the warrants.

The costs of the Employee Offering will be borne by the Company.

2.13. INFORMATION RELATED TO THE SHARES

2.13.1. Regulations applicable in Belgium in case of theft or loss of securities

The theft or loss of securities is regulated by the Law of 24 July 1921, amended by the Law of 22 July 1991, on the involuntary dispossession of bearer securities.

This system involves the following steps:

- a protest has to be lodged with the National Securities Office *(Nationaal Kantoor voor de Roerende Waarden / Office National des Valeurs Mobilères)*;
- payments are suspended and any transfer of the protested securities in principle becomes null and void;
- barring any objection, the securities are returned to the owner as soon as they are found;
- securities listed in the bulletin of stop orders on securities *(Bulletin der met verzet aangetekende waarden / Bulleting des Oppositions)* for an interrupted period of four years become null and void.

The person who lodged the protest is then entitled, barring objection, to:

- the right to receive the payment of dividends, interest and, if any, the principal due or any capital distribution and any liquidation balance;
- the right to receive, at his request and at his expense, a new security with the same number as the original security.

The objection to the protest is proven by any deed or action brought to the notice of the issuing institution which shows that a third party is considered to lay claim to the existence, in his favor, of a right to the protested security. If an objection is made, the issue of the right of ownership between the person who lodged the protest and the holder of the securities is settled in accordance with common law.

2.13.2. Belgian taxation

The following is a summary of certain Belgian tax consequences of the acquisition, ownership and disposal of shares in the Company. It is based on the tax laws, regulations and administrative interpretations applicable in Belgium as presently in effect and is subject to changes in Belgian law, including changes that could have a retroactive effect. The following summary does not take into account or discuss the tax laws of any country other than Belgium, nor does it take into account the individual circumstances of each investor. Prospective investors should consult their own advisers as to the Belgian and foreign tax consequences of the acquisition, ownership and disposal of the shares.

For the purpose of this summary, a Belgian resident is (i) an individual subject to Belgian personal income tax (*i.e.* an individual who has his domicile in Belgium or has the seat of his assets in Belgium, or a person assimilated to a Belgian resident), (ii) a company subject to Belgian corporate income tax (*i.e.* a company that has its registered office, its main establishment, or its place of management in Belgium) or (iii) a legal entity subject to the Belgian tax on legal entities (*i.e.* a legal entity other than a company subject to the corporate income tax, that has its registered office, its main establishment, or its place of management in Belgium). A Belgian non-resident is a person that is not a Belgian resident.

2.13.2.1 Dividends

For Belgian income tax purposes, the gross amount of all distributions made by the Company to its shareholders is generally taxed as dividends, except for the repayment of paid-up capital carried out in accordance with the Belgian Company Code to the extent that the capital qualifies as "fiscal" capital. The gross amount paid by the Company to redeem its shares and the gross amount of distributions made by the Company to its shareholders as a result of the Company's partial or complete liquidation is also generally considered as a dividend, to the extent that the payment exceeds the fully paid-up fiscal capital of the Company (represented by the shares that are redeemed). In general, a 10% Belgian withholding tax is levied on such redemption and liquidation dividend distributions. For redemptions, this will depend on the final destination of the shares thus redeemed (e.g. cancellation, sale, ...). No withholding tax will be due for redemptions carried out on Euronext or any other similar stock exchange market.

In general, a Belgian withholding tax of (currently) 25% is levied on dividends. As of 1 January 1994, under certain circumstances, the 25% withholding tax rate is reduced to 15% with respect to certain qualifying shares (VVPR shares) issued. Shares that are eligible for this reduced withholding tax rate can be issued together with or accompanied by a "VVPR strip", which is a separate instrument representing the holder's right to receive dividends at the reduced withholding tax rate of 15%. The New Shares that are issued in Primary Offering will be accompanied by a VVPR strip. Amongst the Existing Shares, only the Existing Shares resulting from the exercise of Warrants will be sold with a separate VVPR strip. The shares covering the Over-allotment Option will not have a separate VVPR strip.

For private investors who are Belgian residents and for legal entities subject to the Belgian tax on legal entities, the Belgian withholding tax generally constitutes the final tax in Belgium on their dividend income. The amount that will be taxed is the amount of the dividend paid. If a private investor elects to report the dividend income in his/her personal income tax return, he/she will be taxed on this income at the separate rate of 25% or, if applicable, the reduced rate of

15%, or at the progressive personal income tax rates taking into account the taxpayer's other declared income, whichever is lower. In both cases, the amount of income tax payable is increased by the municipal surcharge and the withholding tax levied at source will be creditable against the total amount of tax due and even reimbursable should it exceed the tax payable, provided that the dividend distribution does not give rise to a reduction in value of or a capital loss on the shares. This condition is not applicable if the investor proves that he/she held the shares in full legal ownership during an uninterrupted period of twelve months prior to the attribution of the dividends.

For resident individuals who hold the shares for professional purposes, the dividends received will be taxed at the progressive personal income tax rates increased by the municipal surcharge. The withholding tax will be creditable against the personal income tax due and is reimbursable to the extent that it exceeds the tax payable, subject to two conditions: (i) the taxpayer must own the shares at the time of payment or attribution of the dividends in full legal ownership and (ii) the dividend distribution may not give rise to a reduction in the value of, or a capital loss on, the shares. The second condition is not applicable if such investor proves that he/she held the shares in full legal ownership during an uninterrupted period of twelve months prior to the attribution of the dividends.

For Belgian resident companies, the gross dividend income, including the withholding tax, must be added to their taxable income, which is, in principle, taxed at the general corporate income tax rate of (currently) 33.99%. In certain circumstances lower tax rates can apply.

If such a company holds, at the time of the dividend distribution, a share participation of at least 10% in the capital of the Company or a share participation with an acquisition value of at least €1,200,000, then 95% of the gross dividend received can in principle (although subject to certain limitations) be deducted from the taxable income ("dividend received deduction"), provided that the share participation in the Company qualifies as a "financial fixed asset" and provided that a one year minimum holding period in full legal ownership is met.

For qualifying investment companies and for financial institutions and insurance companies, certain of the aforementioned conditions do not apply.

The withholding tax may, in principle, be credited against the corporate income tax and is reimbursable to the extent that it exceeds the corporate income tax payable, subject to two conditions: (i) the taxpayer must own the shares in full legal ownership at the time of payment or attribution of the dividends and (ii) the dividend distribution may not give rise to a reduction in the value of, or a capital loss on, the shares. The second condition is not applicable if the investor proves that it held the shares in full legal ownership during an uninterrupted period of twelve months prior to the attribution of the dividends or if, during that period, the shares never belonged to a taxpayer who was not a resident company or who was not a non-resident company that held the shares through a permanent establishment in Belgium.

No withholding tax will be due on dividends paid to a resident company provided the resident company owns, at the time of the distribution of the dividend, at least 20% of the share capital of the Company for an uninterrupted period of at least one year and, provided further, that the resident corporation provides the Company or its paying agent with a certificate as to its status as a resident company and as to the fact that it has owned a 20% shareholding for an uninterrupted period of one year. For those investors owning a share participation of at least 20% in the share capital of the Company for less than one year, the Company will levy the withholding tax but, provided the investor certifies its resident status and the date on which it acquired the shareholding, will not transfer it to the Belgian Treasury. As soon as the investor owns the share participation of at least 20% in the capital of the Company for one year, it will receive the amount of this temporarily levied withholding tax. The 20% minimum participation requirement will be reduced to 15% for dividends attributed or paid after 1 January 2007 and to 10% for dividends attributed or paid after 1 January 2009.

If the shares are held by a non-resident in connection with a business in Belgium, the beneficiary must report any dividends received, which will be subject to the non-resident individual or corporate income tax. Withholding tax retained at source may, in principle, be offset against non-resident individual or corporate income tax and is reimbursable to the extent that it exceeds the actual tax payable, subject to the condition that the dividend distribution must not reduce the value of, or result in a capital loss, on the shares. This condition is not applicable if: (a) the non-resident individual or the non-resident company can demonstrate that he/it has held the full legal ownership of the shares for an uninterrupted period of 12 months preceding the date upon which the dividends are attributed or (b) with regard to non-resident companies only, if, during said period, the shares never belonged to a taxpayer other than a resident company or a non-resident company which has, in an uninterrupted manner, invested the shares in a Belgian establishment.

With regard to non-resident individual investors who acquire the shares for professional purposes or non-resident corporations, the taxpayer must fully own the shares at the time the dividends are made available for payment or attributed for the withholding tax to be offset against non-resident individual or corporate income tax. Non-resident corporate taxpayers may deduct up to 95% of gross dividends from their taxable profits if, at the date dividends are made available for payment or attributed *(mis en paiement ou attribuées)*, (i) they hold at least 10% of the total capital of the Company or a shareholding with an acquisition value of at least €1,200,000; (ii) full legal ownership of the shares for an uninterrupted period of at least one year and (iii) the shares qualify as financial fixed assets under Belgian GAAP.

A non-resident shareholder, who does not hold shares of the Company through a permanent establishment or fixed base in Belgium, will not be subject to any Belgian income tax other than the dividend withholding tax, which normally constitutes the final Belgian income tax. Belgian tax law provides for certain exemptions from withholding tax on Belgian source dividends distributed to non-resident investors. In the event there is no exemption applicable under Belgian domestic tax law, the Belgian dividend withholding tax can potentially be reduced for investors who are non-residents pursuant to the treaties regarding the avoidance of double taxation concluded between the State of Belgium and the state of residence of the non-resident shareholder.

Belgium has concluded tax treaties with more than 60 countries, reducing the dividend withholding tax rate to 15%, 10%, or 5% for residents of those countries, depending on conditions related to the importance of the shareholding and certain identification formalities.

Prospective holders should consult their own tax advisors to determine whether they qualify for a reduction of the withholding tax rate upon payment of dividends and, if so, the procedural requirements for obtaining such reduction upon the payment of dividends or making claims for reimbursement.

Additionally, in accordance with European Union law, European Union resident companies that qualify under the EU Parent-Subsidiary Directive of 23 July 1990 (90/435/EEC) as amended by Directive 2003/123/EG of 22 December 2003 are exempt from Belgian withholding tax if they own at least a 20% interest in the Company for an uninterrupted period of at least one year. To benefit from this exemption, the qualifying shareholder must sign a certificate as to its status as a European-Union resident company within the meaning of the EU Parent-Subsidiary Directive of 23 July 1990 (90/435/EEC) as amended by Directive 2003/123/EG of 22 December 2003 and as to it having held a 20% or more interest for an uninterrupted period of at least one year. This certificate must then be forwarded to the Company or the paying agent. A shareholder that holds an interest in the Company of 20% or more but that has not held such interest for the minimum one-year period at the time the dividends are attributed, may benefit from the exemption if it signs a certificate such as that described above, but, giving the date from which it has held its 20% or more interest. In the certificate, the shareholder must also undertake to continue to hold the interest until the one-year period has expired and to notify the Company immediately if the one-year period has expired or if its shareholding falls below 20%. The Company will hold the withholding tax until the end of the one-year holding period and then pay it to the shareholder or the Belgian Treasury, as appropriate. The 20% minimum participation requirement will be reduced to 15% for dividends attributed or paid after 1 January 2007 and to 10% for dividends attributed or paid after 1 January 2009.

2.13.2.2 Capital gains and losses

Private investors who are a Belgian resident are in principle not subject to Belgian income tax on capital gains realized upon the sale, exchange or other transfer of shares, unless either (i) the capital gain is the result of speculation or cannot be considered as the result of normal management of a private estate (33% tax) or (ii) the gain is realized upon the transfer to certain non-resident legal entities of shares belonging to a substantial shareholding of 25% or more in the Company (16.5% tax).

However, the European Court of Justice has decided on 8 June 2004 that the application of this 16.5% capital gain tax is contrary to the general principles of free movement of capital and freedom of establishment contained in the EC Treaty if the shares are transferred to an EU resident company.

These taxes are subject to the communal surcharge. Any losses suffered by private investors upon the disposal of the shares are generally not tax deductible. However, losses on speculative transactions or transactions outside the scope of the normal management are, in principle, tax deductible from the income received pursuant to similar transactions.

Individual residents who hold the shares for professional purposes are taxed at the ordinary progressive income tax rates increased by the applicable municipal surcharge on any capital gains realized upon the disposal of the shares. If the shares were held for at least 5 years prior to such disposal, the capital gains tax will be levied at a reduced rate of 16.5%. Losses on shares realized by such an investor are tax deductible.

Resident legal entities are normally not subject to Belgian capital gains tax on the disposal of the shares, but they may be subject to the 16.5% tax described above if they hold a substantial participation (more than 25%). Losses incurred by resident legal entities upon disposal of the shares are generally not tax deductible.

Resident companies and companies with their tax residence outside Belgium, which hold the shares through a permanent establishment in Belgium, will not be taxed in Belgium with respect to capital gains realized upon disposal of the shares.

Any losses incurred by such investors with respect to disposal of the shares will not be tax deductible, except possibly at the time of liquidation of the Company up to the fiscal capital of the Company represented by those shares.

Non-resident shareholders, who do not hold the shares through a permanent establishment or fixed base in Belgium, will generally not be subject to any Belgian income tax on capital gains realized upon the sale, exchange, redemption (except for the dividend withholding tax, see supra) or other transfer of the shares, unless they hold a substantial participation and the bilateral tax treaty concluded between the Kingdom of Belgium and their state of residence, if any, does not provide for an exemption from Belgium capital gains tax.

2.13.2.3 Tax reduction on the investment in the shares ("The Monory bis Law")

Cash payments up to a maximum of €620 for qualifying shares to which a Belgian resident has subscribed as an employee of the Company, or as an employee of certain qualifying subsidiaries of the Company, entitle the subscriber, subject to certain conditions described below, to a reduction of the personal income tax due.

Qualifying shares are new shares subscribed for on the primary market, *i.e.* new shares subscribed for upon the incorporation of or a capital increase by the Company. Shares acquired on the secondary market, *i.e.* purchase of existing shares on the stock market, are not considered qualifying shares.

The tax reduction applicable to qualifying shares is limited to taxpayers who are, at the moment of subscription of qualifying shares, working for the Company or certain qualifying subsidiaries of the Company under an employment contract and who receive a remuneration as described in Articles 30, 1° and 31 of the Belgian Income Tax Code of 1992. Directors, even if they are working for the Company under an employment contract, are not eligible for this tax reduction, as they do not receive a remuneration described in the above articles of the Belgian Income Tax Code of 1992. A company will be considered as a qualifying subsidiary of the Company if the Company is irrefutably deemed to control such company. Such control is deemed to exist in those circumstances where in the Company possesses: (i) the majority of voting rights in such company, either as a result of shareholding or on the basis of an agreement; (ii) the right to appoint or remove the majority of the members of the board of directors of such company; (iii) the authority to control, by virtue of the company's Articles of Association or contracts concluded with such company, or (iv) joint control on such company.

The reduction applicable to qualifying shares must be claimed in the annual tax return and cannot be cumulated with the tax reduction for pension savings. The reduction is granted subject to the condition that the employee demonstrates, in his/her personal income tax return related to the taxable period in which the payment occurred, that the qualifying shares were acquired and that the qualifying shares were still held at the end of the applicable taxable period. The tax reduction will only be maintained if the employee proves that he/she has held the shares during the subsequent five taxable periods.

2.13.2.4 Tax on stock exchange transactions

The purchase and the sale and any other acquisition or transfer for consideration in Belgium, through a "professional intermediary", of Existing Shares (secondary market) is subject to the tax on stock exchange transactions, generally in the amount of 0.17% of the transfer price. According to a new law of 28 April 2005 the amount of tax on stock exchange transactions is capped at maximum €500 per transaction and per party.

In any event, no tax on stock exchange transactions is payable by (i) professional intermediaries described in Articles 2, 9° and 10° of the Act of 2 August 2002 on the supervision of the financial sector and financial services, acting for their own account; (ii) insurance companies described in Article 2, §1 of the Insurance Supervision Act of 9 July 1975 acting for their own account, (iii) pension funds described in Article 2, §3, 6th of the Insurance Supervision Act of 9 July 1975 acting for their own account; (iv) UCIT's, described in the Law of 4 December 1990 acting for their own account, or (v) non-residents (upon delivery of a certificate of non-residence).

The Joint Global Coordinators will use reasonable efforts to ensure that the shares delivered to retail investors are New Shares. Should the total number of shares allocated to retail investors exceed the number of New Shares effectively allocated in the Offering, then the New Shares will be allocated among the retail investors on a pro rata basis.

2.13.2.5 Tax on the physical delivery of bearer shares

The physical delivery of bearer shares acquired on the secondary market for consideration through a "professional intermediary" in Belgium is subject to the Belgian tax on the physical delivery of bearer securities. The tax payable is equal to 0.6% of the purchase price. The tax is also due upon the physical delivery of shares in Belgium pursuant to the withdrawal of the shares from "open custody" *(dépôt à découvert / open bewaargeving)* or as a result of the conversion of registered shares into bearer shares. The tax payable is 0.6% of the last stock price quotation prior to the date of withdrawal or conversion.

No tax on the physical delivery of bearer securities is due upon the issuance of New Shares. In any event, as further explained in section 2.4.7 the shares cannot yet be delivered as bearer shares in physical form. Physical certificates will be available as soon as possible and at the latest within three months after the first listing date.

A draft bill approved by the Council of Ministers on 29 April 2005 for submission to the Parliament provides for the abolition of bearer securities and, hence, the abolition of the anonymous character thereof. All bearer securities shall be converted into dematerialized or registered securities. Two dates are contemplated to be relevant with respect to the entering into force of this new law. First, as of 1 January 2008, it will no longer be possible to issue new bearer securities nor will it be possible to physically deliver in bearer form existing securities previously unconverted. Second, securities issued prior to the publication of the proposed law should be converted into dematerialized or registered securities before 2014.

2.13.2.6 VVPR strips

The New Shares offered pursuant to this Prospectus meet the conditions pursuant to which shares are entitled to a reduced withholding tax rate of 15% and are, therefore, eligible for the *"Verminderde voorheffing/Précompte Réduit"* regime, and will consequently be issued with VVPR strips. Amongst the Existing Shares, only the Existing Shares resulting from the exercise of Warrants will be sold with a separate VVPR strip. The shares covering the Over-allotment Option will not have a separate VVPR strip. The Selling Shareholders, the Company and the underwriters will use reasonable efforts to ensure that the New Shares with VVPR strips are delivered to retail investors and to investors subject to Belgian legal entities tax *(impôt des personnes morales / rechtspersonenbelasting)*, in this order of priority. However, no guarantees can be given in this regard. Should the total number of shares allocated to the retail investors exceed the total number of VVPR strips thus available, which is unlikely, the VVPR strips will be allocated among the retail investors on a pro rata basis.

The coupons representing the right to receive dividends at the ordinary withholding tax rate, are attached to each share. In addition, some shares will be accompanied by a second sheet of coupon, which gives the holder the right to benefit from the reduced withholding tax rate of 15%. The coupons of the second sheet must bear the same sequential numbers as those of the ordinary coupons and must bear the legend "Strip-PR" or, in Dutch, "Strip-VV" (together "VVPR strips"). The VVPR strips will be listed on Eurolist by Euronext Brussels and may be traded separately. They are offered as part of the Offering. The reduced withholding tax rate of 15% can be obtained by delivery of both coupons with the same number to the Company or one of its paying agents before the end of the third year following the year in which the dividend was attributed.

Capital gains and losses

Individual Belgian residents and individual Belgian non-residents holding the VVPR strips as a private investment are not subject to Belgian capital gains tax upon the disposal of the VVPR strips, and can not deduct losses incurred as a result of such disposal. Individual Belgian residents and individual Belgian non-residents may, however, be subject to a 33% tax (to be increased with a local surcharge) if the capital gain is deemed to be speculative or if the capital gain is otherwise realized outside the scope of the normal management of one's own private estate. Losses on speculative transaction or on transaction outside the scope of the normal management are, in principle, deductible from the income realized pursuant to similar transactions.

Capital gains realized on VVPR strips by Belgian resident investors holding the shares for professional purposes, or by non-resident investors, who acquired the strips for a business conducted in Belgium through a fixed base or a Belgian establishment, are taxable as ordinary income, and losses on VVPR strips are deductible.

Legal entities subject to the Belgian tax on legal entities are not subject to Belgian capital gains tax upon the disposal of the VVPR-strips and cannot deduct losses incurred as a result of such disposal.

Stamp tax on securities transactions and tax on the physical delivery of bearer shares

The rules regarding the levy of the stock market tax and the tax on the physical delivery of bearer instruments are the same as mentioned above in section 2.13.2.4 and 2.13.2.5.

3. GENERAL INFORMATION ABOUT ZETES AND ITS SHARE CAPITAL

3.1. GENERAL INFORMATION

The Company is a company limited by shares *(société anonyme / naamloze vennootschap)* and was incorporated under the laws of Belgium on 26 March 1984 for an indefinite period of time under the name "C. and P. Technology". After changing twice, the Company has been using the name "Zetes Industries" since 1993. The Company's registered office is located at Da Vinci Science Park, rue de Strasbourg 3, 1130 Brussels, Belgium (tel 02 728 37 11) and it is registered with the Belgian register for legal entities under number 0425.609.373 (Brussels). The documents related to the Company and quoted in this Prospectus can be reviewed and/or obtained at its registered office.

This section summarizes the Company's corporate purpose, share capital and the rights attached to its shares. It is based on the Company's articles of association, to be amended by the Company's extraordinary shareholders' meeting to be held on 4 November 2005, which amendments will become effective upon closing of the Offering. The description provided hereafter is a summary only and does not purport to give a complete overview of the Company's articles of association, nor of the relevant provisions of Belgian law; neither should it be considered as legal advice regarding these matters.

3.2. CORPORATE PURPOSE

According to Article 3 of its Articles of Association:

The purpose of the Company is to import, export, buy, sell, distribute, rent and let, manufacture, assemble and maintain all electronic and data processing materials, including offices for the use of bank foreign-exchange trader generally, central units of processing, peripheral equipment and all others devices related to the data processing technique, the accessories supply, software, as well as the supply of all services and works related to these products and activities.

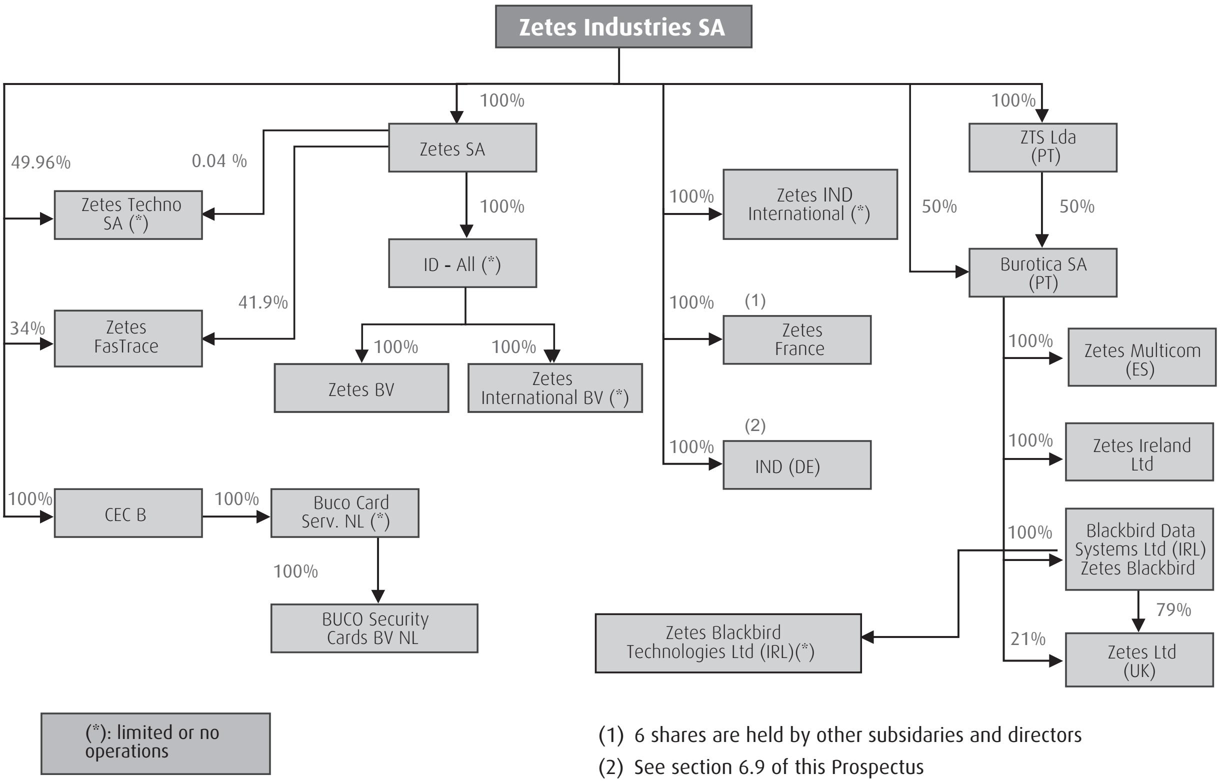
The Company has also for purpose all activities in the broadest sense of civil nature, trade, finance, administrative or technique, for its own account as well as for the account of third party and related either directly or indirectly to data processing, research works and execution of services as adviser, research works and execution of services as adviser, consulting analyst and experts concerning the schedule, the analysis and the programming in the management field, the technology, the management, the business, the economy, the finance, the accounting, the social and tax policies and the trade, the coverage of partial or complete realizations relating to the aforesaid activities and the execution of works in services offices as well as the selection, the training and the proposal of staff.

It may acquire, buy, use or sell all patents, trademarks and licenses and fill in applications for its own account all products intended for the sale within Belgium and abroad.

The Company may take an interest directly or indirectly in every business, enterprises or companies having an identical, similar or related object to its own or which may favor the development of its enterprise.

3.3. GROUP STRUCTURE

Zetes' current structure is as follows:



(1) 6 shares are held by other subsidiaries and directors

(2) See section 6.9 of this Prospectus

The subsidiaries of the Company are as follows:

Subsidiaries	Registered office
Zetes SA	Da Vinci Science Park, rue de Strasbourg 3/b4, 1130 Brussels
Zetes Technologies SA	Da Vinci Science Park, rue de Strasbourg 3/b4, 1130 Brussels
Zetes FasTrace SA	Da Vinci Science Park, rue de Strasbourg 3/b4, 1130 Brussels
Card Encoding Company SA (CEC)	1601 Sint-Pieters-Leeuw
Zetes France SA	Batiment Aristote, Parc des Algorithmes, 91190, St Aubin, France
IND Mobile Datensysteme GmbH	Langehorner Chaussee 42, Hamburg, Germany
Zetes IND International GmbH	Langehorner Chaussee 42, Hamburg, Germany
Zetes Ireland Ltd	Lonsdale Road, National Technological Park, Limerick, Ireland
Blackbird Data Systems Ltd ("Zetes Blackbird")	Lonsdale Road, National Technological Park, Limerick, Ireland
Blackbird Technology Ltd	Enterprise House, Plassey Technological Park, Limerick, Ireland
Zetes Ltd	Upcott House – Carrington Business Park, Manchester Road – Carrington, M31 4DD Urmston - Manchester, United Kingdom
Burotica- Sociedade de Estudos e Equipamentos Automaticos de Escritorio S.A	Alameda Antonio Sergio, 7, Edificio Empresarial, Linda-a-Velha, Oeiras, Portugal
ZTS- Teconologicas de Indentificaçao Automatica Lda	Salgados da Povoa, parish of Povoa de Santa Iria, Vila Franca de Xira, Portugal
Zetes Multicom	Echevarri (Vizcaya) Polígono Lezama Leguizamón, Edificio SEUR, Spain
Zetes BV	Science Park Eindhoven 5202, 5692 EG Son, The Netherlands
ID-All BV	Science Park Eindhoven 5202, 5692 EG Son, The Netherlands
Zetes International BV	Science Park Eindhoven 5202, 5692 EG Son, The Netherlands

3.4. COMPANY CAPITAL AND SHARES

3.4.1. Share capital and shares

The Company's share capital amounts to €19,254,476 represented by 3,084,770 registered ordinary shares without par value, each representing an identical fraction of the Company's share capital[3]. The capital is fully paid up.

3.4.2. Other outstanding financial instruments

In the period from 1998 to 2000, the Company extended its presence in Europe mainly by acquisitions financed by short-term bank loans. In 2001, the financial leverage became significant and on 26 October 2001, in order to strengthen its capital structure, the Company issued subordinated bonds for a total amount of €14 million. The proceeds were used to reimburse about half of the bank debt and created the conditions to consolidate part of the remaining debt into medium term bank loans.

The subordinated bonds were subscribed by certain existing shareholders (Cobepa for an amount of €6.5 million and Sapec for an amount of €0.8 million) and by new investors (KBC Private Equity for an amount of €4 million, E-Capital for an amount of €2 million and Dexia Bank for an amount of €0.7 million). Each bondholder received Warrants (the "Warrants") that entitle their holder to require, in proportion to their investment in the bonds issue, the issue of a maximum amount of 1,183,200 Company's shares for a total exercise price of €14 million, leading to a capital increase of the same amount. The exact number of shares to be created depends on the performance of the Company between the issuing date and the exercise date of the Warrants. According to the agreement signed between the Company and the bonds- and Warrant holders, the maturity of the bond and the date of exercise of the Warrant are either, ultimately, 26 October 2006 or a few days before an initial public offering or trade sale.

Prior to the Closing Date, all subordinated bonds will be repaid by the Company (€14 million).

The warrant holders have confirmed that they will exercise all their Warrants prior to the Closing Date, leading to a capital increase of €14 million. Based on certain offer price assumptions, simulations on the number of shares issued as a result of the exercise of the Warrants are given in section 3.6.

Apart from the above-mentioned ordinary shares, bonds and Warrants, the Company has not issued any other securities, whether or not representing the Company's capital.

All the ordinary shares have the same rights.

3.4.3. Development of the capital

The table below provides an overview of the history of the Company's share capital since 2002. The overview should be read together with the notes set out below the table.

Date of operation	Transaction	Number of shares issued	Issue price per share (€)	Amount (€)	Issue premium (€)	Share capital after the transaction (€)	Aggregate number of shares after the transaction
31 December 2002	Capital increase in cash without issuance of new shares[4]	/	/	3,703,687	/	20,313,687	308,477
31 December 2002	Capital decrease[5]	/	/	1,059,211	/	19,254,476	308,477
24 October 2005	Stock-split of one share into 10 shares						3,084,770

[3] *All figures prior to the Offering, the exercise of the Warrants and the Employee Offering.*
[4] *Subscribed by the then existing shareholders, in proportion with their shareholding in the Company as follows: Zephir: €2,058,071 - Cobepa: €990,765 - Inducam: €197,565 - Mr. Carbonez: €244,329 - Sapec: €212,957*
[5] *Applied equally to the then existing shares*

Prior to the Closing Date, all existing Warrants issued by the Company will be exercised, giving rise to a capital increase of €14 million and to the issuance of a number of new shares depending on the Offer Price (see section 3.6). The shares issued pursuant to the exercise of the Warrants will be part of the Secondary Offering as Existing Shares.

On 4 November 2005, the Company's general shareholders meeting will also decide a €30 million capital increase as required for the purpose of the Offering (see section 2.2.3).

3.4.4. Description of rights attached to the shares

3.4.4.1 Voting rights

Each share is entitled to one vote except in the case of suspensions with respect to such voting rights as provided for by law or the Company's articles of association. Shareholders may vote by proxy.

The Company may suspend the exercise of rights attached to shares, which are subject to co-ownership, and/or pledge until one person is appointed as the beneficiary of these rights.

3.4.4.2 Right to attend and vote at general shareholders' meetings

The annual general shareholders' meeting is held on the last Wednesday of May at 10.00, or, if this is not a business day, on the next business day. An extraordinary general shareholders' meeting may be convened by the board of directors or the statutory auditor whenever the Company's interests so require and must be convened at the request of shareholders representing at least one-fifth of the Company's share capital.

a. Notices convening the general shareholders' meeting

The notice of the general shareholders' meeting must include an agenda indicating the items to be discussed as well as any motions for resolutions.

The notice must be published in the Belgian State Gazette *(Moniteur belge / Belgisch Staatsblad)* at least 24 days prior to the record date, such date being determined as the fifth working day before the general shareholders' meeting takes place. The notice must also be published in a national newspaper 24 days before the record date, except if it concerns annual meetings held at the municipality, place, day and hour mentioned in the incorporation act of the Company and whose agenda is limited to the examination of the annual accounts, the board of directors' report, the statutory auditor's report and the vote on the directors' and statutory auditor's release of liability. The annual accounts, the board of directors' report and the statutory auditor's report are made available to the public 15 days before the annual meeting.

These notices will be sent 15 days prior to the meeting to holders of registered shares, holders of registered bonds, holders of registered warrants, holders of registered certificates issued with the cooperation of the Company, directors and statutory auditors of the Company. This communication is made by ordinary letter unless the addressees have individually and expressly accepted in writing to receive the notice by another form of communication, without having to give evidence of the fulfillment of such formality.

When all the shares, bonds, warrants and certificates issued with the cooperation of the Company are registered, the communication may be limited to the sending of the notices by registered letter unless the addressees have individually and expressly accepted in writing to receive the notice by another form of communication.

b. Formalities to attend the general shareholders' meeting

The shareholders shall only be entitled to participate in the general shareholders' meeting and to vote on the items of the agenda, with respect to the shares of which they are the holder on 12 p.m. of the record date, such date being determined as the fifth working day before the general shareholders' meeting takes place. The above applies irrespective of the number of shares held by each shareholder on the day the shareholders' meeting takes places. Notices to the general shareholders' meeting will contain further information on the registration procedure.

c. Proxy

Each shareholder has the right to attend and vote at the general shareholders' meeting in person or through a proxy holder. The proxy holder does not need to be a shareholder. The board of directors may establish rules regarding the form the proxies must take.

d. Quorum and majorities

There is no attendance quorum at the general shareholders' meeting, except as provided by law in relation to decisions regarding certain matters.

Decisions are taken by a simple majority, except where the law provides for a special majority. Matters involving legal special quorum and majority requirements include, among others, amendments to the articles of association including amendments to rights attached to the shares and issues of new shares, convertible bonds or warrants and decisions regarding mergers and de-mergers, which require at least 50% of the share capital to be present or represented and the affirmative vote of the holders of at least 75% of the votes cast. If the quorum is not reached, a second meeting may be convened at which no quorum shall apply. The special majority requirements, however, remain applicable.

3.4.4.3 Dividends

All shares participate in the same manner in the Company's profits (if any) as of and for the entire fiscal year starting on 1 January 2005 and for each subsequent financial year. In general, the Company may pay dividends only upon the approval of the Company's shareholders at the general shareholders' meeting, although the board of directors may declare interim dividends without such shareholder approval. Pursuant to the Belgian Company Code and the Company's articles of association, the Company must allocate at least 5% of its annual net profits under its statutory non-consolidated accounts to a legal reserve until the reserve equals 10% of the Company's share capital.

In accordance with Belgian law, the right to collect dividends declared on ordinary shares expires five years after the distribution date, whereupon the Company is no longer under an obligation to pay such dividends. If, with respect to bearer shares, the Company decides to enforce the expiration of the five-year term, the amounts not distributed must be made unavailable in accordance with the provisions of Belgian law and, ultimately, will accrue to the Belgian State.

3.4.4.4 Rights regarding liquidation

In the event the Company is wound up, the Company's shareholders, acting at the general shareholders' meeting, shall appoint one or more liquidators and determine at the same time the liquidation method to be used. After settlement of all debts, charges and expenses relating to the liquidation, the net assets shall be equally distributed amongst all the shareholders, after deduction of that portion of such shares that are not fully paid, if any.

3.4.4.5 Changes to the share capital

a. Changes to the share capital decided by the shareholders

Under Belgian company law, the Company may increase or decrease its share capital by decision of the Company's general shareholders' meeting, taken with a majority of 75% of the votes cast, at a meeting where at least 50% of the share capital of the Company is present or represented.

b. Authorized capital

On 4 November 2005, the general shareholders' meeting will authorize the board of directors to increase the Company's share capital in one or more transactions by a maximum amount of €40 million.

The board of directors can use the above powers for any purpose or type of transaction that they believe to be in the interest of the Company in one or more transactions with a maximum amount that cannot exceed 20% of the authorized amount. In case of capital increase by way of contribution in kind, the use of the authorized capital shall be subject to the unanimous consent of all directors.

If the board of directors has already used its powers under the authorized capital to increase the Company's share capital by an amount of 20% of the authorization, any further use of the powers under the authorized capital shall be subject to the unanimous consent of all directors and only for the following transactions:

- the issuance of shares or warrants in the framework of incentive plans, such as stock option plans, stock purchase plans or other plans, for directors, consultants and personnel of the Company and its subsidiaries;
- the issuance of financial instruments in consideration of the acquisition of shares, assets and liabilities or combinations of shares, assets and liabilities of companies or business;
- the issuance of financial instruments in consideration of the acquisition of licenses or other rights on intellectual property (whether registered or unregistered intellectual property rights, or applications therefore), such as patents, copyrights, data base rights, design rights, know-how or trade secrets; and
- the issuance of financial instruments when the Company has been notified by the CBFA that the latter has been informed of a public takeover bid on the Company, until the closing of the offer.

When using its powers under the authorized capital, the board of directors can issue shares, with or without voting rights, warrants, convertible bonds or combinations thereof or other securities. The board of directors can increase the Company's share capital through contributions in cash by existing shareholders using their preferential subscription right, as well as through contributions in kind and contributions in cash with a limitation or cancellation of the preferential subscription right of the existing shareholders, even for the benefit of individuals that are not an employee of the Company or its subsidiaries. The capital can also be increased through incorporations of reserves or issuance premiums.

The powers of the board of directors within the framework of the authorized capital will be effective upon closing of the Offering, and will be valid for a period of five years as of the publication thereof in the annexes to the Belgian State Gazette (three years of the authorization to be used in the framework of a public takeover bid).

3.4.4.6 Preferential subscription right

Belgian company law and the Company's articles of association give shareholders preferential subscription rights to subscribe on a pro rata basis for any issue for cash of new shares, convertible bonds or warrants that are exercisable for cash. These preferential subscription rights are transferable during the subscription period of the securities to which they relate. They can be exercised during a period determined by the general shareholders' meeting, with a legal minimum of 15 days. The general shareholders' meeting may restrict or withdraw the preferential subscription rights, subject to the quorum and voting requirements required for any amendment to the Articles of Association, and subject to special reporting requirements. Shareholders may also authorize the board of directors to restrict or disapply the preferential subscription rights when issuing securities within the framework of the Company's authorized capital. See section 3.4.4.5.

On 4 November 2005, the general shareholders' meeting will authorize the board of directors, effective upon the closing of the Offering, to restrict or withdraw the shareholders' preferential subscription rights in connection with capital increases of an aggregate amount of up to €40 million, decided by the board of directors within the framework of the authorized capital, including for the benefit of specific persons (whether or not employees of the Company or its subsidiaries) and in connection with capital increases in the event of a public tender offer. The board of directors' powers within the framework of the authorized capital have been described in section 3.4.4.5b.

3.4.5. Form and transferability of the shares

Shares may be in registered, bearer or dematerialized form. No implementing legislation to date has, however, been passed to allow shares to take such dematerialized form.

Until their physical delivery, bearer shares will be represented by one or more global certificates and only book-entry settlement will be possible. The Offered Shares will take the form of bearer shares. Registered shares may, upon request from any shareholder and at its cost, be converted into bearer shares, and vice-versa.

The articles of association of the Company provide that the shares are freely transferable.

3.4.6. Purchase and sale of own shares

Under Belgian company law, the Company may not acquire its own shares without prior shareholder authorization or in other limited circumstances and in any case subject to a maximum of 10% of the Company's share capital. In principle, the offer by a company to purchase its own shares must be extended to all shareholders unless the shares are purchased on the stock exchange. Within certain limits, the shareholders may in advance grant the board of directors authorization to repurchase and/or transfer the Company's shares. The authorizations must be approved by an affirmative vote of the holders of 80% of the votes cast at a general shareholders' meeting where the shares representing at least 50% of the Company's share capital are present or represented. If the quorum is not reached, a second meeting may be convened at which no quorum shall apply. The voting rights attached to shares held by the Company itself are suspended.

A transitional statutory provision authorizing the Company, for a period of three years, to purchase its own shares in case of imminent serious harm to the Company in accordance with Article 620, § 1, al. 3, 4 and 5 of the Company Code, has been inserted in the Company's articles of association pursuant to an amendment that will be adopted by the Company's extraordinary shareholders' meeting to be held on 4 November 2005 under the suspensive condition of the closing of the Offering.

3.5. OPTION PLANS / WARRANTS

The Company currently intends to create a warrant plan or a stock option plan at the time of the Offering and listing (see section 2.12).

3.6. OUTSTANDING FINANCIAL INSTRUMENTS PRIOR THE CLOSING DATE

On 26 October 2001, the Company issued subordinated bonds for a total amount of €14 million. The bonds will be repaid by the Company prior to the Closing Date. Accumulated interests (€1.9 million up to 30 June 2005) will also be repaid at the same time.

The Company also issued Warrants that entitle their holder to subscribe to a number of new Company shares for a total amount of €14 million (see section 3.4.2). The number of shares created as a result of the exercise of the Warrants depends on the Company's performance at the exercise date. In the case of an initial public offering, the performance is reflected in the Offer Price. The number of new shares to be created from the exercise of the Warrants will be dependent on the Offer Price as set out in the simulation table below, but will in any case be limited to a maximum of 1,183,200 shares.

Warrant holders	Number of new shares to be created by exercise of the Warrants Assuming a pre-money valuation[1] of €105 million	 Assuming a pre-money valuation[1] of €115 million	 Assuming a pre-money valuation[1] of €125 million
Cobepa	394,113	358,846	329,373
Dexia	42,442	38,645	35,470
Sapec	48,506	44,165	40,538
E-Capital	121,265	110,414	101,345
KBC Private Equity	242,531	220,828	202,691
TOTAL	**848,857**	**772,898**	**709,417**

[1] A pre-money valuation is defined as a valuation of the Company following the exercise of the Warrants but before the capital increase associated with the Primary Offering.

A pre-money valuation range of €105 million to €125 million corresponds with a value per share of €26.7 and €32.9 respectively.

As a result of the application of the formula agreed in 2001, the new shares resulting from the exercise of the Warrants will be issued at a price between €16.58 (corresponding to a valuation of €105 million) and €19.82 (corresponding to a valuation of €125 million). The exercise will happen before the closing and the dilutive impact will not affect the new shareholders. The evolution of the shareholding is shown in the sections 3.7.2, 3.7.3 and 3.7.4.

The Warrant holders have confirmed to the Company that they will exercise their Warrants prior to the Closing Date in accordance with their terms.

3.7. SHAREHOLDERS

3.7.1. Selling Shareholders

The Selling Shareholders are:

	Registered office	Legal Entity Number
Zephir Corporation SA [1]	Da Vinci Science Park Rue de Strasbourg 3/b4, 1130 Brussels	0.463.544.093
Cobepa SA [3]	Rue de la Chancellerie 2, 1000 Bruxelles	0.403.233.750
Inducam SA [2]	Mechelsesteenweg 139, 2640 Mortsel	0.447.471.292
Sapec SA [4]	Avenue Louise 500, 1050 Bruxelles	0.403.085.280
E-Capital SCA [5]	Avenue Louise 534, 1050 Bruxelles	0.466.883.566
KBC Private Equity NV	Avenue du Port 12, 1080 Bruxelles	0.403.226.228
Dexia Bank SA	Boulevard Pachéco 44, 1000 Bruxelles	0.403.201.185
Mr. Franky Carbonez	Leuvensesteenweg, 540, 1930 Zaventem	NA
Mr Pierre Lambert	Rue de Strasbourg 3/b4, 1130 Brussels	NA

[1] Zephir's shareholders are Alain Wirtz holding 50% of the shares, Jean-Francois Jacques holding 25% of the shares and Thierry Blanchart holding 25% of the shares.
[2] Mr. Carbonez owns 51% of the shares of Inducam.
[3] www.cobepa.be
[4] www.sapec.be
[5] www.e-capital.be

3.7.2. Shareholders prior to the Closing Date and prior to the exercise of the Warrants

The shares of the Company are prior to the Closing Date and prior to the exercise of the Warrants held as follows:

Shareholders	Shares	% capital
Zephir	1,477,925	47.9%
Cobepa	825,200	26.8%
Franky Carbonez	203,500	6.6%
Inducam	177,300	5.7%
Sapec	177,370	5.7%
E-Capital	0	0.0%
KBC Private Equity	160,125	5.2%
Dexia	0	0.0%
Other	63,350	2.1%
TOTAL	**3,084,770**	**100.0%**

3.7.3. Shareholders following exercise of the Warrants but before Closing Date

The table below details the expected share ownership after the exercise of the Warrants but before the capital increase and before the sale of Existing Shares by the Selling Shareholders, assuming a pre-money valuation of the Company (including the capital increase of €14 million as a result of the exercise of the Warrants) of €115 million:

	Assuming a pre-money valuation of €115 million	
Shareholders	**Shares**	**% capital**
Zephir	1,477,925	38.3%
Cobepa	1,184,046	30.7%
Franky Carbonez	203,500	5.3%
Inducam	177,300	4.6%
Sapec	221,535	5.7%
E-Capital	110,414	2.9%
KBC Private Equity	380,953	9.9%
Dexia	38,645	1.0%
Other	63,350	1.6%
TOTAL	**3,857,668**	**100.0%**

3.7.4. Shareholders after the completion of the Offering

The table below details the expected share ownership after the completion of the Offering, assuming full placement of the Offered Shares, full exercise of the Over-allotment Option but excluding the Employee Offering:

	Assuming a pre-money valuation of €115 million	
Shareholders	**Shares**	**% capital**
Zephir	1,326,311	27.27%
Cobepa	779,571	16.03%
Franky Carbonez	0	0.00%
Inducam	154,172	3.17%
Sapec	0	0.00%
E-Capital	0	0.00%
KBC Private Equity	159,623	3.28%
Dexia	0	0.00%
Other	59,996	1.23%
Public	2,384,343	49.02%
TOTAL	**4,864,016**	**100.00%**

The shareholders' agreement existing among the Selling Shareholders and the Company prior to the Offering will terminate upon completion of the Offering.

Zephir and Cobepa have concluded a term sheet containing provisions, which will be materialized in a new shareholders' agreement, to which the Company will not be a party, that will apply as from the Closing Date and in which the main provisions are:

- Minimum number of directors: each party will vote in favor of a minimum number of candidate directors proposed by the other provided the latter holds a least 10% of the votes cast at a specific shareholders' meeting (see section 4.2.1);
- Consultation: each party is free to use its voting rights as it deems appropriate and therefore Zephir and Cobepa have no agreement to control the Company; however, they have agreed to consult about the strategic decisions to be taken by the Company;
- Priority right: the parties have a priority right on the shares that the other party wishes to transfer according to certain modalities; however the first 25% of each party's shareholding immediately after the Offering will not be subject to this priority right;
- After the initial public offering, the Company's dividend policy will be to pay out dividends for an amount of about one third of its net profit before goodwill impairment.

All shares have the same voting rights.

3.8. NOTIFICATION OF IMPORTANT PARTICIPATIONS

Belgian law, in conjunction with the Company's Articles of Association, imposes disclosure requirements on any individual or entity acquiring or transferring voting securities or securities which give a right to voting securities, as soon as, following such acquisitions or transfer, the total number of voting rights directly or indirectly held by such individual or entity, alone or in concert with others increases above or falls below a threshold of 3%, 5%, or any multiple of 5%, of the total number of voting rights attached to the Company's securities. A shareholder whose shareholding increases above or falls below any such thresholds must, each time, disclose this fact to the CBFA and to the Company. The documents pursuant to which the transaction was effected must be submitted to the CBFA. When the participation of a shareholder reaches 20%, the notification must indicate in which strategy the acquisition or transfer concerned fits, as well as the number of securities acquired during a period of 12 months before the notification and in which manner such securities were acquired. Such notification is also required if an individual or an entity acquires or transfers control (either direct or indirect, either *de iure* or *de facto*) on a company that possesses 3% of the voting rights of the Company.

The Company is required to publicly disclose any notifications received regarding increases or decreases in a shareholder's ownership of the Company's securities on the next business day, and must mention these notifications in the notes to its annual accounts. Euronext Brussels will publish details of the notifications. Violation of the disclosure requirements may result in the suspension of voting rights, a court order to sell the securities to a third party and/or criminal liability.

3.9. PUBLIC TAKEOVER BIDS

Further to the law of 2 March 1989 concerning the disclosure of large shareholdings in companies listed on the stock exchange and regulating public takeover bids, and to the Royal Decree of 8 November 1989 concerning public takeover bids and changes in control of companies, public takeover bids for outstanding voting securities issued by a public company (including any securities giving right to subscription for, acquisition of or conversion into such voting securities) are subject to the supervision of the CBFA and may not commence prior to the approval by the CBFA of an offer prospectus. If the takeover bid results in the acquisition of 90% or more of the voting securities, the takeover bid must be reopened to allow any remaining shareholders to sell their securities at the bid price.

A person intending to acquire, alone or in concert with others, a joint or exclusive controlling interest in a public company must notify the CBFA at least five banking days before the acquisition. The acquisition of a controlling interest is currently defined as an acquisition of voting securities or rights to acquire voting securities giving the purchaser the legal or de facto ability to decisively influence the appointment of a majority of the members of the company's board of directors or the orientation of the company's policy.

If the acquirer of a controlling interest pays a premium over the market value of the securities, it must make a public takeover bid or issue a standing order *(engagement de maintien de cours / koershandhaving)* for all of the company's remaining voting securities (or rights to acquire voting securities). The consideration offered to the remaining security holders must equal the highest price paid to the seller or sellers of the controlling interest during the preceding 12 months.

The Company's ability to issue shares in the framework of its authorized capital with or without deviation from the preferential subscription rights and to acquire its own shares (see sections 3.4.4.5 and 3.4.6) may adversely affect a take over bid for securities of the Company.

3.10. SQUEEZE-OUT

Further to the law of 2 March 1989 concerning the disclosure of large shareholdings in companies listed on the stock exchange and regulating public takeover bids, and to the Royal Decree of 8 November 1989 concerning public takeover bids and changes in control of companies, a person, acting alone or in concert, who owns 95% of the securities conferring voting rights in a public company, can acquire the totality of the securities conferring voting rights in that company following a squeeze out offer. The shares that are not voluntarily tendered in response to such offer are deemed to be automatically transferred to the bidder at the end of the procedure. At the end of the offer, the company is no longer deemed a public company, unless bonds issued by the company are still spread among the public. The consideration for the securities must be in cash and must represent the fair value as to safeguard the interests of the transferring shareholders.

A simplified squeeze-out procedure is applicable, if following a voluntary public takeover offer in cash and provided that the bidder has reserved the right to do so in the prospectus, the bidder owns at least 95% of the target securities and has acquired 66% of the securities it did not hold before the launch of the offer. In that case, the bidder may reopen its offer at the same conditions for 15 days as from the date of the publication of the results of the offer in order to launch a squeeze-out offer on the remaining securities.

4. CORPORATE GOVERNANCE

4.1. GENERAL

This section 4 summarizes the rules and principles by which the corporate governance of the Company is organized pursuant to Belgian company law and the Company's articles of association.

It is based on the Company's articles of association that will be amended by the general shareholders' meeting of 4 November 2005 and on the draft Company's corporate governance charter. Certain provisions of the articles of association will become effective upon the closing of the Offering.

The Company's corporate governance charter will be adopted in accordance with the recommendations set out in the Belgian Code for Corporate Governance issued on 9 December 2004 by the Belgian Corporate Governance Committee. Corporate governance has been defined in the Code as a set of rules and behaviors according to which companies are managed and controlled. The Code is based on a "comply or explain" system: Belgian listed companies should follow the Code, but may deviate from its provisions and guidelines (though not from the principles) provided they disclose the justification for such deviation.

The Company's board of directors intends to comply with the Belgian Code for Corporate Governance, but believes that certain deviations from its provisions are justified in view of the Company's particular situation. These deviations are further explained below.

The board of directors of the Company will adopt its corporate governance charter after completion of the Offering and will review it from time to time and make such changes, as it deems necessary and appropriate. The charter will be made available free of charge on the Company's website (www.zetes.com) and at the registered office of the Company after completion of the Offering. In its annual report for the fiscal year ended 31 December 2005, to be published in 2006, the board of directors will also devote a specific chapter to corporate governance, describing the Company's corporate governance practices during 2005 and including explanations, if applicable, on any deviations from the Code, in accordance with the requirement to "comply or explain".

Due to the size of the Company, the board of directors does not plan to set up a Nomination Committee and does not plan to appoint a Company secretary and therefore does not follow the Belgian Code for Corporate Governance on these topics.

4.2. BOARD OF DIRECTORS

4.2.1. General provisions

The board of directors of the Company may perform all acts necessary or useful for achieving the Company's corporate purpose, with the exception of those acts that are by law or the Company's articles of association explicitly reserved for a general shareholders' meeting.

The board of directors of the Company is composed of a minimum of 6 and a maximum of 12 members. Upon completion of the Offering, three directors will be independent directors within the meaning of Article 524 of the Belgian Company Code (see section 4.2.3).

Directors are elected at general shareholders' meetings for a renewable term of 6 years maximum. In accordance with the Belgian Company Code, if the mandate of a director becomes vacant due to his/her death or resignation, the remaining directors have the right to appoint temporarily a new director to fill the vacancy until the first general shareholders' meeting after the mandate becomes vacant. The new director completes the term of the director whose mandate becomes vacant.

A meeting of the board of directors is validly constituted if there is a quorum, consisting of at least half of the members present in person or represented at the meeting. Meetings of the board of directors are convened by the chairman of the board or by at least two directors.

The chairman of the board of directors has no casting vote on matters submitted to the board of directors.
Zephir and Cobepa entered into an agreement, to which the Company is not a party, providing that each of them will vote in favor of candidate directors proposed by the other, in accordance with the following rules:

- one candidate director if the percentage of shares owned by Zephir or Cobepa is equal to or greater than 10% but less than 14% of the total issued and outstanding shares of the Company;
- two candidate directors if such ownership is equal to or greater than 14% but less than 21% of the total issued and outstanding shares of the Company;
- three candidate directors if such ownership is equal to or greater than 21% but less than 28% of the total issued and outstanding shares of the Company;
- four candidate directors if such ownership is equal to or greater than 28% but less than 35% of the total issued and outstanding shares of the Company;
- five candidate directors if such ownership is equal to or greater than 35% but less than 42% of the total issued and outstanding shares of the Company;
- six candidate directors if such ownership is equal to or greater than 42% of the total issued and outstanding shares of the Company; and
- etc.

Upon completion of the Offering, the board of directors of the Company will include three directors proposed by Zephir and two directors proposed by Cobepa.

4.2.2. Chairman

Upon closing of the Offering, the chairman of the board of directors will be Mr. Jean-François Jacques.

4.2.3. Independent directors

A director can only be considered an independent director if he/she meets the criteria set out in Article 524 of the Belgian Company Code, which can be summarized as follows:

- an independent director may not have held a position as a director, a member of the management committee or a higher management position in the Company or an affiliate during the two-year period preceding his or her election to the board of directors;
- an independent director may not own shares representing 10% or more of the total share capital of the Company or of a particular class of shares. If he/she owns less than 10%: (i) such shares, together with other company shares held by companies controlled by the director concerned may not equal or exceed 10% or (ii) the disposal of such shares or the exercise of the rights attached thereto may not be subject to any contractual arrangement or unilateral undertaking from the independent directors;
- an independent director may not have a close family member, meaning a spouse or partner or relative up to the second degree, holding a key position or a financial interest as described above; and
- an independent director may not maintain any relationship with a company which would jeopardize his/her independent judgment.

The board of directors of the Company will consider a director independent for the purpose of the last criterion, if he is free from any business, close family or other relationship with the Company, its controlling shareholders (if any), or the management of either, that creates a conflict of interest such as to affect that director's independent judgment. The corporate governance charter will contain further explanation on this matter.

In considering a director's independence, the criteria set out in the Belgian Code of Corporate Governance will also be taken into consideration. The board of directors will disclose in its annual report which directors it considers independent directors. If a director does not meet the criteria set out in accordance with the Belgian Code of Corporate Governance, the board of directors will set out its reasons for nevertheless considering this director to be an independent director within the meaning of the Belgian Code of Corporate Governance.

Although, Mr. Carbonez, one independent director, will indirectly remain shareholder of the Company and one independent director, Mr. Vansina, will remain the managing director of KBC Private Equity, shareholder of the Company, the board will nevertheless consider them as independent taking into consideration their expertise both in the activity sector and in public companies.

4.2.4. Composition of the board of directors

Upon completion of the Offering and listing of the Company's shares, the board of directors will consist of 9 members. These members are:

Name and position	Term until (1)	Professional address
Alain Wirtz, CEO (Nominated by Zephir Corporation) (Executive - Non-independent Director)	2008	Rue de Strasbourg 3, 1130 Brussels
Jean-François Jacques, Chairman (Nominated by Zephir Corporation) (Executive - Non-independent Director)	2008	Rue de Strasbourg 3, 1130 Brussels
Pierre Lambert, CFO (Executive - Non-independent Director)	2008	Rue de Strasbourg 3, 1130 Brussels
Jean-Marie Laurent Josi (Nominated by Cobepa) (Non-Executive – Non-independent Director)	2008	Rue de la Chancellerie 2, 1000 Brussels
Alexandre Schmitz (Nominated by Cobepa) (Non-Executive – Non-independent Director)	2008	Rue de la Chancellerie 2, 1000 Brussels
Olivier Gernay (Nominated by Zephir Corporation) (Non-Executive – Non-independent Director)	2008	Avenue Brugmann 403, 1180 Brussels
Franky Carbonez (Non-Executive – Independent Director)	2008	Leuvensesteenweg 540, 1930 Zaventem
Floris Vansina (Non-Executive – Independent Director)	2008	Havenlaan 12, 1080 Brussels
José-Charles Zurstrassen (Non-Executive – Independent Director)	2008	Boulevard du Souverain 100, 1170 Brussels

(1) The term of the mandates of the directors will end immediately after the annual general shareholders' meeting held in the year set out next to the directors' name.

Mr. Jean-Marie Laurent Josi holds a degree of the Ecole de Commerce Solvay (business school). He has served as a director of the Company since 1998. He is currently managing director of Cobepa. Mr. Laurent Josi is or was director of the following companies during the last five years[1]: Aon Belgium, Belron, Brussels Downtown, Cobehold, Dicobel (expired), Editeco (expired), Elia, GIB Holding (expired), Groupe Josi, Josi & C°, Keytrade Bank (expired), Lunch Garden, LVI, Mobilexpense, Mobistar (expired), PQ Licensing, Sapec, Touring, UCO Textiles (expired), Verlinvest and Winterthur-Europe Assurances.

Consequently of some of these directorships, Mr. Laurent Josi is or was also director in the following companies, which are all fully owned subsidiaries of companies previously mentioned: Cippar, Claireville (expired), Cobepa Finance, Cobepa Nederland, Cobip, Compagnie Centrale 1909, Copabel, Fiprolux, Groupement Financier Liégeois, Ibel, Mosane, Regio, Sofidelux, Sofidev, Sofimmocentrale (expired), Sofireal, Touring Assurances and Ulran.

(1) except for mandates in the subsidiaries of the Company as defined in Article 6 of the Company Code

Mr. Alexandre Schmitz holds a master in arts of Economics from the Université Catholique de Louvain. He has served as a director of the Company since 2001. He is currently investment director with Cobepa and non-executive director of Belron and CDH Développement (Carrières du Hainaut). Mr. Alexandre Schmitz is or was also director of Cobepa International (expired), Cobepa Finance and Dicobel (expired).

Mr. Olivier Gernay holds a degree in law. He has served as a director of the Company since 1992. He is currently a lawyer (avocat / advocaat).

Mr. Franky Carbonez holds a degree in Electronics. He has served as a director of the Company since 2001. He is currently Director of Intellect International, Intellect Holdings (Australia), Paypoint, Tracorplus, Fortis Corp., MTT, Prodata France, BizzR, and chairman of Prodata Systems. Mr. Franky Carbonez is or was director of the following companies during the last five years(1): Inducam, MFI, Kortech, Protonworld International (expired), Erg Transit systems (expired), Erg Manufacturing (expired) and Card.etc. (Germany)(expired)(see also section 4.8.1).

Mr. Vansina holds a master's degree in finance and international business and a master's degree in applied economic sciences. He has served as a director of the Company since 2004. He is currently managing director of KBC Private Equity. Mr. Vansina is or was director of the following companies during the last five years(1): Best NV, Capricorn NV (expired), Ceres Inc. (US), I-Pac Technologies NV, IT Partners NV, Krypton NV (expired), LVD NV (expired), Mezzafinance NV, Mbidco Ltd., Microtherm Internatinal NV, Mitico NV, Sinelco Group NV, Sun Beverages NV (expired), Vlaamse Energieholding NV, Benevent Management NV, Ceneca Management NV (expired), Club NV (expired), Investcotrust NV (expired), Proxis België NV (expired) and Ubidco NV (expired). Since June 2004, he is a member of the Executive Committee and board of directors of EVCA.

Mr. Zurstrassen holds a degree of commercial engineer. He will start to serve as a director of the Company after the closing of the Offering. He is currently managing director of Keytrade Bank and director of Real Lease, Keytrade Luxemburg, New Tree and Salvea. Mr. Zurstrassen was director of the following companies during the last five years(1): E-Commerce, Samarkande and JZManagement.

(1) except for mandates in the subsidiaries of the Company as defined in Article 6 of the Company Code

Litigation statement concerning directors

At the date of this Prospectus, none of the directors of the Company for at least the previous five years:

- has any convictions in relation to fraudulent offenses;
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation (except for Franky Carbonez who was director of LCI Technology SA which was declared bankrupt on 4 July 2002); or has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body); or
- has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

4.3. COMMITTEES WITHIN THE BOARD OF DIRECTORS

4.3.1. General

The board of directors may set up specialized committees to analyze specific issues and advise the board of directors on those issues. The committees are advisory bodies only and the decision-making powers remains within the collegial responsibility of the board of directors. The board of directors determines the terms of reference of each committee with respect to the organization, procedures, policies and activities of the committee.

The board of directors will establish an Audit Committee and a Remuneration Committee and does not currently anticipate setting up other Committees as it deems that the size of the Company does not justify additional committees.

4.3.2. Audit committee

The Audit Committee of the Company will consist of three members, all of which are non-executive directors and the majority of which are independent directors. The Audit Committee has the following tasks:

- to verify, and if required, investigate the Company's accounts;
- to follow-up on matters relating to audit activities;
- to evaluate the reliability of the Company's financial information;
- to be in contact with the auditor and assess the accounts compliance; and
- to monitor internal control procedures.

The Audit Committee shall regularly report to the board of directors with respect to the financial accounts of Zetes. The Audit Committee will hold at least 4 meetings a year.

The members of the Audit Committee will be:

- Alexandre Schmitz (Chairman of the Audit Committee);
- Floris Vansina; and
- José-Charles Zurstrassen.

4.3.3. Remuneration committee

The Remuneration Committee of the Company will consist of three members, all of which are non-executive directors and the majority of which are independent directors. The Remuneration Committee will annually evaluate the key managers of the Company. It will also make proposals to the board of directors on the remuneration policy for non-executive directors and the resulting proposals to be submitted to the shareholders' meeting, and the remuneration policy for the executive management. It will also establish conditions for possible stock options for personnel.

The members of the Remuneration Committee will be:

- Jean-Marie Laurent Josi (Chairman of the Remuneration Committee);
- Franky Carbonez; and
- José-Charles Zurstrassen.

4.4. EXECUTIVE MANAGEMENT

4.4.1. General provisions

The board of directors will appoint the executive management of the Company. The terms of reference for the executive management will be determined by the board of directors.

The executive management will include all executive directors of the Company. The executive management will not constitute an executive committee *(comité de direction/directiecomité)* within the meaning of Article 524bis of the Belgian Company Code.

4.4.2. Chief executive officer and managing directors

The board of directors will appoint two managing directors (MDs), *i.e.* Mr. Alain Wirtz and Mr. Jean-François Jacques. The MD's can be removed by the board of directors of the Company. The Board will also appoint Mr. Alain Wirtz as CEO, ultimately responsible vis-à-vis the board of directors for the management of the Company and the implementation of the decisions of the board of directors, within the strategy, planning, values and budgets approved by the board of directors.

The MDs are each charged by the board of directors with the day-to-day management of the Company. In these functions, the MDs head and oversee the different central departments and business units of the Company, and report to the board of directors on their activities.

The MDs have certain specific tasks. These are further described in the terms of reference of the executive management, as will be set out in the Company's corporate governance charter.

4.4.3. Composition of the executive management

Upon closing of the Offering, the executive management will consist of three members: the two MDs, Mr. Alain Wirtz and Mr. Jean-François Jacques, and the CFO of the Company, Mr. Pierre Lambert.

Jean-François Jacques was born in 1957. He holds a law degree from the Université Libre de Bruxelles (1980). He started his professional career as an attorney and was later managing director of Merbes Sprimont SA, a company active in the extraction and commercialization of natural stones (1991-1993). Mr. Jacques has been managing director of the Company since 1993. Mr. Jacques is also managing director of Zephir, managing director of Pacific Research and Trade Cy SPRL and non-executive director of AIM Global, Carolimmo, Clarenhof, Sotel and Werso. Mr. Jacques is or was director of the following companies during the last five years(1): managing director of BJP Catering SA.

Alain Wirtz was born in 1962. Mr. Wirtz has been managing director of the Company since 1993. He holds a degree in Electronics (1982). He started to work for Zetes in 1984 as sales manager of Zetes SA and become in 1986 managing director of Zetes SA. Mr. Wirtz is or was director of the following companies during the last five years(1): managing director of Zephir, director of Dowa and a member of the managing committee of Agoria Brussel, and Fortis Bank Brussels area.

Pierre Lambert was born in 1964. He holds an Economic Science Degree from the Université Catholique de Louvain (1988). He started his career in the banking sector and later became the financial director of the bank Crédit Agricole / Landbouwkrediet. Mr. Lambert has been CFO of the Company since 2000.

(1) except for mandates in the subsidiaries of the Company as defined in Article 6 of the Company Code

4.5. REMUNERATION OF DIRECTORS AND EXECUTIVE MANAGEMENT

4.5.1. Directors

The Company's directors in 2004 and in 2005 were not remunerated in that capacity. For 2006, the board of directors will propose a total remuneration of €48,000, corresponding to an annual remuneration of €8,000 for each non-executive director. Directors who are members of the Audit Committee will also receive €1,000 for each meeting of the Audit Committee to which they take part.

4.5.2. Executive management

The total remuneration paid by the Company directly or indirectly through a company, Zephir, which provides management services, to its executive management in 2004 amounted to €523,793, of which 19.85% represented variable remuneration. The total fixed remuneration paid by the Company to its executive management in 2005 is expected to be €540,000. Except for amounts due in accordance with labour law, no amount will be payable by the Company upon termination of employment of its executive management. Contrary to the Belgian Code on Corporate Governance, the board of directors has currently opted not to disclose the individual remuneration of the CEO due to privacy reasons and as the board believes that the remuneration of the CEO is set at reasonable market standards.

4.6. SHARES AND WARRANTS HELD BY DIRECTORS AND EXECUTIVE MANAGEMENT

4.6.1. Shares held by non-executive directors

The table below provides an overview of the shares held directly or indirectly by directors who are not members of the executive management prior to the Closing Date.

Name	Number of shares (1)
Mr. Franky Carbonez	380,800

(1) Shares held directly or through Inducam.

4.6.2. Shares held by the executive management

The table below provides an overview of the shares held directly or indirectly by the executive management prior to the Closing Date.

Name	Number of shares
Alain Wirtz	733,240 (2)
Jean-François Jacques	366,620 (2)
Pierre Lambert (1)	31,380

(1) In 2005, Mr. Lambert acquired 17,250 shares of the Company as a result of the exercise of a call option granted to him by Zephir in 2001. Mr Lambert will also be offered to subscribe to warrants issued by the Company in the framework of the Employee Offering.
(2) Shares held through Zephir.

4.7. THE STATUTORY AUDITOR

The statutory auditor of the Company is Dupont, Ghyoot, Koevoets, Peeters, Rosier & Co, a civil company with the form of a commercial company *(burgerlijke vennootschap met handelsvorm / société civile à forme commerciale)*, with registered office at Bovenberg 124, 1150 Brussels, represented by Mr. Thierry Dupont. This firm has audited the Company's consolidated accounts since 2000. Mr. Thierry Dupont is responsible for the audit of the statutory accounts of the Company and of the consolidated financial statements. The annual fee for the auditing services to the Company amounted to €29,128 for the fiscal year 2004 and the budget for 2005 amounts to €41,000. In 2004, the annual fee for other services performed for Zetes by the statutory auditor amounted to €7,608. It concerns the Belgian subsidiaries and the consolidated accounts. Most of the foreign subsidiaries are audited by local external auditors.

The three-year mandate of the statutory auditor will expire at the annual general shareholders' meeting that will be held in 2008.

4.8. CONFLICTS OF INTEREST OF DIRECTORS AND EXECUTIVE MANAGEMENT TRANSACTIONS WITH AFFILIATES

4.8.1. *Conflicts of interest of directors and executive management*

Article 523 of the Belgian Company Code contains special provisions, which must be complied with whenever a director has a direct or indirect conflicting interest of a patrimonial nature in a decision or transaction within the authority of the board of directors.

According to Article 523, § 1 of the Belgian Company Code, the director having a direct or indirect conflicting interest of a patrimonial nature shall notify the other directors thereof prior to a decision of the board of directors relating to such conflicting interest. His/her statement and the grounds justifying the aforementioned conflict of interest must be recorded in the minutes of the board of directors meeting at which such decision is taken.

With a view to its publication in the annual report, the board of directors must describe in the minutes the nature of the contemplated decision or the transaction and shall account for the decision taken. The minutes shall also mention the patrimonial consequences thereof for the Company. The annual report must contain the aforementioned minutes in their entirety.

If the Company has appointed one or more statutory auditors, the director concerned shall also inform such auditor of his/her conflicting interest. The report of the statutory auditors must contain a separate description of the patrimonial consequences for the Company of the decisions of the board of directors in respect of which there is a conflicting interest.

If the company makes or has made a public offer, the director concerned may not participate in the deliberations or voting of the board of directors on such decisions or transactions in respect of which there is a conflicting interest.

In case of non-compliance with the foregoing, the Company may request the annulment of the decision or the transactions which have taken place in breach of these provisions if the counterparty to the decision or the transaction was, or should have been, aware of such breach (Article 523, § 2 Belgian Company Code).

Article 523, § 1 of the Company Code does not apply:

- if the decision or transaction within the authority of the board of directors relates to decisions or transactions between companies of which one holds, directly or indirectly, at least 95% of the voting securities issued by the other or between companies of which at least 95% of the voting securities issued by each of them are held by another company (Article 523, § 3, al. 1, Belgian Company Code); or
- if the decision of the board of directors relates to customary transactions which take place on conditions and with collateral customary for similar market transactions (Article 523, § 3, al. 2 Belgian Company Code).

Currently, the directors and executive management have no conflict of interest within the meaning of Article 523 of the Company Code that has not been disclosed to the board of directors.

Mr. Carbonez, director of the Company, is also chairman of the board of directors of Prodata NV, a company active in the same activity segment as Zetes. This situation could lead to conflicts of interest. However, it should be noted that, until now, Prodata and the Company have never actually been in competition.

4.8.2. *Transactions with affiliates*

Article 524 of the Belgian Company Code which will apply to the Company following completion of the Offering provides for a special procedure to be followed when the Company's decisions or transactions concern relationships between the Company, on the one hand, and any of its affiliated companies within the meaning of Article 6 of the Belgian Company Code (other than subsidiaries) of the Company, on the other hand. The procedure contained in Article 524 must also be followed for decisions or transactions that concern relationships between the Company's subsidiaries and affiliated companies of such subsidiaries within the meaning of Article 6 of the Belgian Company Code (other than subsidiaries of the subsidiaries). Such a procedure does not apply to decisions or transactions that are entered into in the ordinary course of business at usual market conditions or for decisions and transactions whose value does not exceed 1% of the Company's consolidated net assets.

Prior to a decision or transaction to which Article 524 applies, a committee of three independent members of the board of directors, assisted by one or more independent experts, must give an assessment thereof, describing the nature of the decision or operation, identifying advantages and disadvantages for the Company and its shareholders and its financial impact, and determining whether or not the decision or transaction is manifestly detrimental in light of the Company's policies. The committee's assessment must be submitted in writing to the board of directors, which then makes a decision in light of the committee's recommendation. The board of directors may deviate from the committee's recommendation, but, if it does, it must justify the reasons for such a deviation. The committee's assessment must be published, together with an excerpt of the minutes of the board of directors' conclusions, in the Company's annual report.

4.9. RELATIONS WITH AFFILIATED COMPANIES

The Company usually enters into services agreements with its subsidiaries pursuant to which the Company acts as service provider by performing management activities for the benefit of Zetes as a whole (e.g. legal, financial, marketing, strategic advice and support).

4.10. RELATIONS WITH SIGNIFICANT SHAREHOLDERS

Current business and commercial dealings between the shareholders and their affiliates on the one hand and the Company and its subsidiaries on the other hand include the following:

- the Managing Directors of the Company, Alain Wirtz and Jean-François Jacques, are remunerated through a management agreement between Zephir and the Company. Zephir is also a major shareholder of Zetes. For more details on the remuneration, see section 4.5.2;
- a lease arrangement at market rates (€140,541 on an annual basis) between the Company and Thierry Blanchart, a significant shareholder of Zephir, with respect to the offices of the Company in Waterloo;
- current accounts in the name of Zephir and Alain Wirtz are also accounted in other receivables on the balance sheet of the company (see section 7.4.2.2b).

5. THE AUTO-ID INDUSTRY

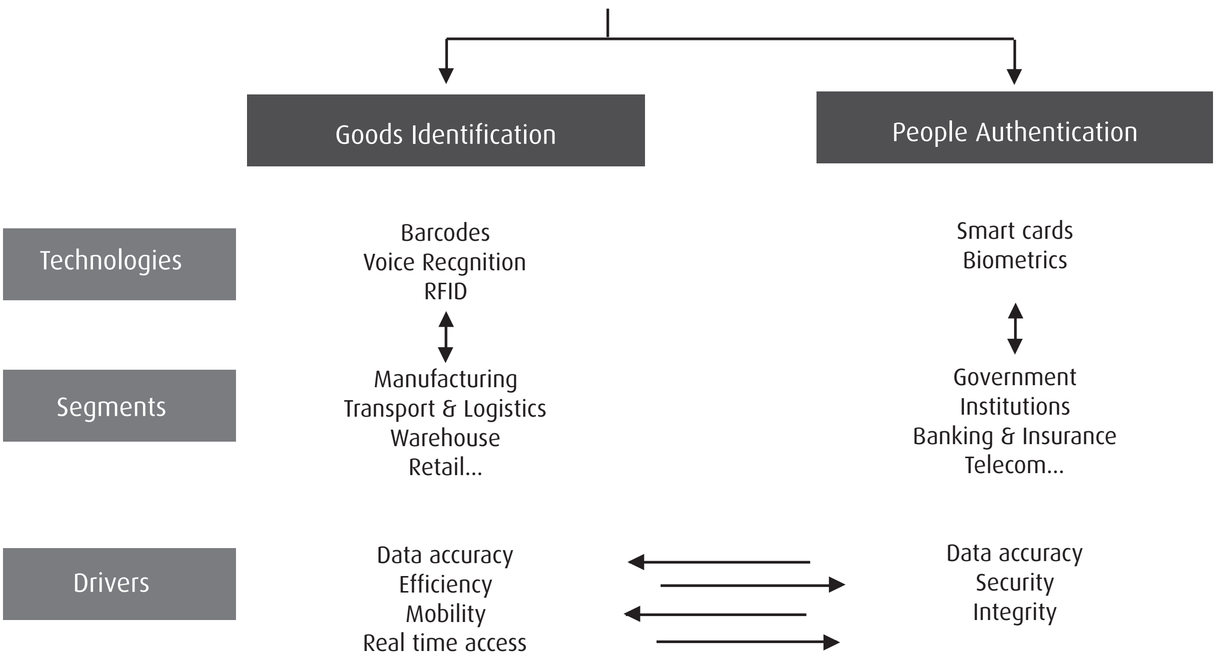
The Auto-ID industry is a technology-driven industry with strong growth prospects. It encompasses two markets — the Goods Identification market and the People Authentication market.

Traditionally, Auto-ID has been synonymous with Goods Identification. Involving applications such as inventory management, warehouse/distribution operations, proof of delivery, package tracking, shelf price audit, and asset tracking, Goods Identification solutions have been deployed across virtually every market segment including retail, manufacturing, transport & logistics, and warehousing. Having enjoyed several decades of growth and maturity with the universal adoption of barcode technology, the Goods Identification market continues to present growth opportunities through the introduction of new technologies such as Voice recognition and RFID *(see "Business glossary")*.

Recently, the Auto-ID industry has broadened to include an emerging market in People Authentication. National ID cards and e-passports are examples of People Authentication applications. Most commonly using smart cards and biometrics today to create what are referred to as "secure documents" for People Authentication, there is demand for these applications in many market segments including government, institutions, banking and insurance, and telecom. This demand for People Authentication solutions indicates a strong growth potential for this market.

Although Goods Identification and People Authentication are two distinct markets, they have common needs that are creating a convergence, as shown below, between their respective growth drivers. These additional drivers are creating further opportunities in both markets.

Auto ID industry overview



Source: Zetes

5.1. THE MARKETS

5.1.1. Goods Identification

Goods Identification is that market of the Auto-ID industry that pertains to the collection and management of data relating to the movement of goods. Goods Identification systems are deployed by enterprises to improve workforce productivity, reduce operating costs, and achieve competitive advantage.

The goods can be items in retail stores, warehouses, distribution centers, or manufacturing plants. The goods to be identified can be finished goods, raw materials, packages or parcels, pallets, shipping containers, or railroad cars.

The collected data, about these movements of goods, could be used in enterprise applications for inventory management, warehouse management, resource planning, or supply chain management.

Goods Identification solutions typically involve the integration of technologies such as mobile computing, wireless infrastructures, and data capture technologies like barcode scanners, radio frequency identification, and voice recognition, to deploy mission critical and on-demand applications that mobilize workforces, improve operating efficiencies, and improve overall data accuracy.

5.1.2. People Authentication

People Authentication involves the reliable verification that individuals are who they claim to be. Governments and commercial organizations alike are implementing programs to authenticate an individual's identity for physical access, logical access, and privilege access.

Physical access involves allowing access to buildings, parking lots, container parks, offices, computer rooms, laboratories, pharmaceutical safes in hospitals, restricted zones in airports, military compounds, jails, and public transportation vehicles such as buses, subways, airplanes, trains, and ships.

Logical access involves granting access to networks, shared documents, intranet, and confidential files such as intellectual property, contracts, payroll, and HR. It also involves providing electronic security for secure e-mail and secure financial transactions such as on-line banking and e-commerce.

Privilege access involves granting privilege to, for example, healthcare services, tax reporting, voting, and border crossing.

Applications in this domain include documents such as national ID cards, e-passports, e-driver's licenses, voters cards, and biometric registration. Recently, an increasing concern for security (post 9/11) has been driving up the demand for People Authentication solutions. The subsequent global government initiatives and mandates have given much visibility to biometrics and smart card technologies and their potential value in People Authentication solutions. The high demand and the availability of technologies to answer this demand could lead to a continued growth in the People Authentication market.

Identity fraud detection, national security, and transaction security are driving the growth of the People Authentication market.

eID, digital signatures, and two-way authentication involving the exchange of private and public keys for secure transactions are all methods of authenticating access and securing communications in the virtual world.

5.2. PLAYERS IN THE AUTO-ID INDUSTRY

The Auto-ID industry players include manufacturers of equipment, distributors, and system integrators. These are companies that manufacture and sell mobile computers, wireless LANs, data capture equipment, and related peripherals such as printers; companies that distribute and resell said hardware; and companies that create and sell related software tools, middleware *(see "Business glossary")*, applications, and provide integration services to create complete solutions.

The Goods Identification market has, over the years, experienced some significant consolidations at the manufacturers' level. Major Goods Identification suppliers are companies such as Symbol Technologies, Intermec Technologies, and Zebra Technologies. Distribution in this market has also seen considerable consolidation. However, the integration players remain quite fragmented.

Similarly, the People Authentication market is fairly consolidated at the mass producer level yet fragmented at the high value-added solutions level. Silicon producers such as Infineon, Atmel, Philips and STM dominate a consolidated chip market; French corporations, such as Axalto and Gemplus, and German corporations dominate a consolidated smart card industry. By contrast, the players who offer high value-added personalization services in, for example, the emerging government and institution People Authentication market segments, are very fragmented.

Whereas until recently, People Authentication had been a niche market with little or no over-lap between the Goods Identification players and the People Authentication players, the high-growth demand in the People Authentication market and the compatibility and synergies between the two markets are gaining the attention of the leading traditional Goods Identification players. Consequently, some manufacturers are positioning themselves to capitalize on the opportunities foreseen in People Authentication. Symbol Technologies, for example, is now selling RFID tags for e-passports.

5.3. CONVERGENCE BETWEEN GOODS IDENTIFICATION AND PEOPLE AUTHENTICATION

Zetes was an early Goods Identification entrant into the People Authentication market. With a vision towards a convergence of the underlying technologies and synergistic competences to create both Goods Identification and People Authentication solutions, Zetes entered the People Authentication market in 1999.

With the entry today of other traditional Goods Identification players, the People Authentication market will experience further consolidation and the convergence with the Goods Identification market is likely to accelerate.

5.3.1. Convergence of growth drivers

For the past decade, the growth drivers for Goods Identification have been data accuracy, efficiency, mobility, and real-time access. The growth drivers for People Authentication have been security, integrity, and data accuracy. Recently, however, Zetes has observed a convergence of these growth drivers — security is becoming increasingly important in Goods Identification; and efficiency, mobility, and real-time access are becoming increasingly important in People Authentication.

A couple of examples of this convergence are described below.

a. Increased importance of security in Goods Identification

Security, a traditional People Authentication driver, is becoming a growth driver for Goods Identification. This convergence is illustrated by the recently announced joint US and European initiative regarding the tracing of container shipments worldwide:

"The EU and the US Customs and Border Protection have signed an agreement to reinforce transatlantic cooperation and mutual assistance in customs matters, including container security on 22 April 2004. This agreement is designed to ensure that cargoes and containers cannot be used to carry out terrorist attacks. It seeks to standardize security arrangements and control standards for US and EU operators. The deal will replace bilateral agreements made between the US and several EU countries. The US will retain US customs officials at EU ports." [6]

The technology used for this is the RFID tag. Containers are sealed and have RFID tags for Goods Identification and security.

b. Parcel tracking and sender identity authentication

Companies like DHL and UPS need to be able to trace parcels worldwide in case parcels contain drugs, (bio)chemical toxic substances, explosives or viruses.

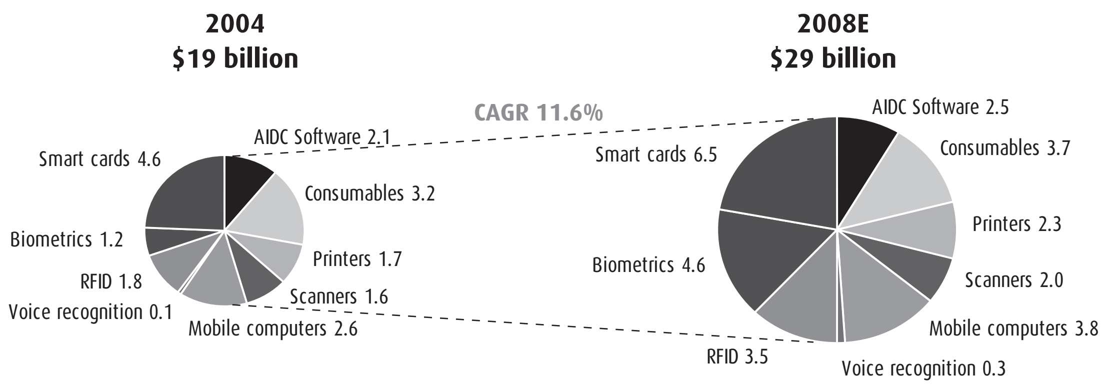
Parcel tracking has been a very typical Goods Identification application for many years. Now there is an increasing need to be able to associate a given parcel to its originator. In the case of questionable parcel contents, the ability to authenticate the sender's identity using a trusted credential is becoming more important all the time.

5.4. AUTO-ID MARKET SIZE AND GROWTH POTENTIAL

Market data for the Auto-ID industry is fragmented. Although quite specific in some areas, such as in Goods Identification manufacturing, market data is weak in others, such as in integration services, and is virtually non-existent in yet others, such as in People Authentication consolidated estimates. However, based on VDC, Eurosmart and International Biometrics Group (IBG), Zetes estimates the overall Auto-ID manufacturing industry to be worth about $19 billion in 2004. Zetes also believes that the market data for the Auto-ID manufacturing sector provides a good benchmark for the size and the outlook of the overall Auto-ID industry.

Overall, the Auto-ID industry is expected to grow between 2004 and 2008 with a CAGR (compounded annual growth rate) of about 11.6% to reach a total value in excess of $29 billion by 2008 (source: VDC, Eurosmart, Company estimates). This growth will be mainly driven by People Authentication and new technologies in Goods Identification. However, on a segment-by–segment basis, the industry outlook varies considerably from, for example, 6.5% CAGR for barcodes to 30% for voice recognition and 115.9% for supply chain RFID.

Auto ID industry



Source: VDC, Eurosmart, IBG, Zetes' estimates

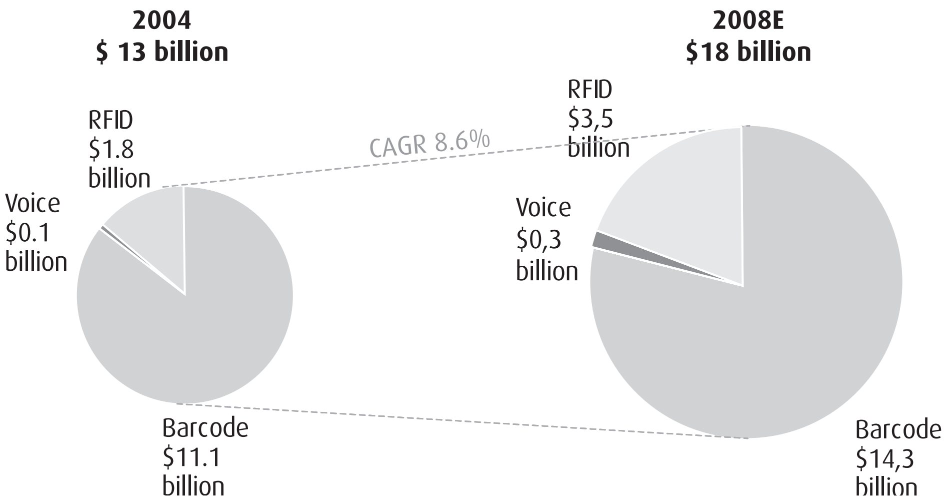
[6] *Source: The USA "Container Security Initiative (CSI)", Dept. of Homeland Security*

5.4.1. Goods Identification

Although the Goods Identification market is quite mature, especially in barcodes, history has shown that investments in this market were overall higher than general IT spending, a trend which is expected to continue because of the associated quick return on investment. For barcodes, which still constitute by far the largest portion of the Goods Identification market, a 2004 – 2008 CAGR of about 6.5% is forecasted based on broker reports, VDC and Company estimates. However, mainly driven by higher expected growth in new technologies such as Voice recognition and RFID, the overall CAGR for Goods Identification is expected to be slightly higher at around 8.6% for the same period.

The total Goods Identification market is estimated to be worth around $13 billion in 2004. Constituting more than 75%, barcodes are the largest segment of this market (for more details, see section 6.5). Although mature, the barcode market segment is still expected to grow to $14.3 billion with a 6.5% CAGR in the period 2004 – 2008. New technologies, such as Voice (30% CAGR) and RFID (18% CAGR), will further improve the growth profile of the Goods Identification market (see section 5.5.3 and 5.5.2). Overall, the Goods Identification market is expected to grow with a CAGR of 8.6% over the next four years to $18 billion in 2008. (source: broker reports, VDC, company estimates).

Goods Identification industry

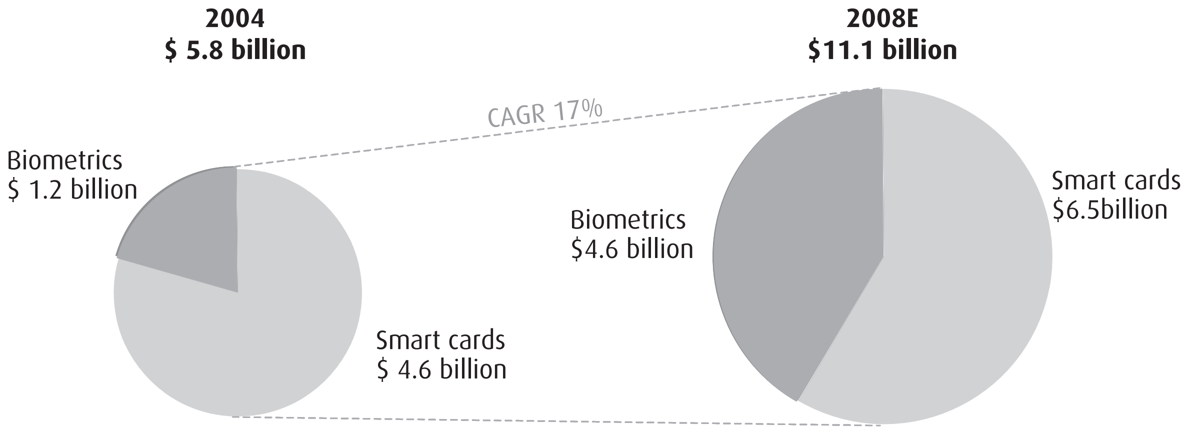


Source: broker reports, VDC, Company estimates

5.4.2. People Authentication

Estimates for the People Authentication market are more varied and less well defined than those for the Goods Identification market. However, some useful estimates exist for the smart card sector and biometrics, which are Zetes' primary interests in this market. Together these two markets represented about $5.8 billion annual sales in 2004 and are expected to grow at a CAGR of 17% (Source: broker reports, Eurosmart, IBG, Zetes' estimates). The total smart card sector is expected to grow at a CAGR of 8.8%, mainly driven by strong CAGR of 42% in the Government & healthcare segment. The biometrics market is expected to grow at a CAGR of 40% (see section 5.5.4.2 and 5.5.5).

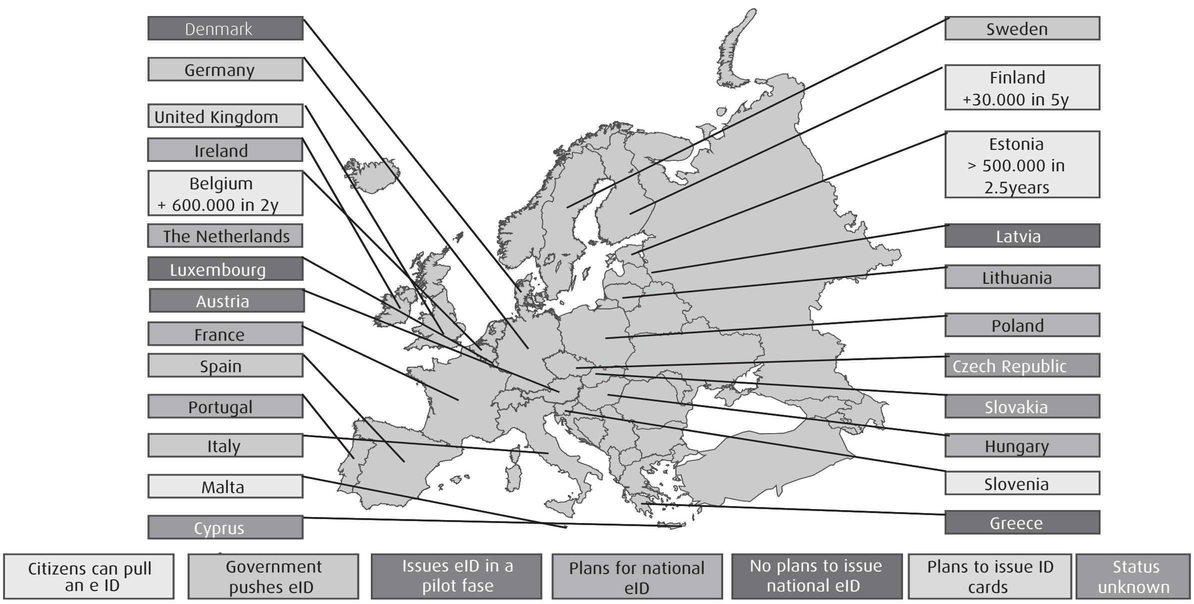
People Autentication industry



Source: broker reports, VDC, IBG, Eurosmart, Company estimates

The graph below depicts the eID card opportunities in Europe:

Overview of eID implementation in Europe



Source: KULeuven, www.godot.be

5.5. AUTO-ID TECHNOLOGIES

5.5.1. Barcodes

The most common and pervasive of the data capture technologies is the barcode. Barcodes represent data as a series of bars and spaces. The encoded data is typically a “license plate” or key into information stored on a computer elsewhere that gives details about an item. In retail, for example, the barcode is often an index into a database that gives specifics about an item — shirt, white, long-sleeved, size medium, 50 euro.

Barcodes have advantages over other data capture technologies, disadvantages compared to alternative technologies (such as RFID), growth drivers that continue to encourage the implementation of new barcode deployments despite the maturity of this technology, and inhibitors as new technologies threaten to supplant the barcode for applications requiring security or more information. The following table shows some of these characteristics.

Advantages
Easily printed Extremely low cost Disposable
Disadvantages
Provide generic item identification only Are read-only Require line of sight, aim and trigger action to decode
Growth Drivers
Low cost of implementation Adoption of global standards
Inhibitors
Low information content Susceptibility to tampering

Barcode systems are dependent on printers to create the barcodes and scanners/imagers to read the barcodes. Main manufacturers are Datalogic, Intermec, Metrologic, Symbol and Zebra.

5.5.1.1 Market size and outlook

Barcoding has been in existence for more than 30 years and accounted for $11.1 billion in global sales in 2004. Mainly driven by a quick return on investment, barcode growth has been outperforming the overall IT market. Over the period 2004 – 2008 it is expected that the market will grow with an overall CAGR of 6.5% to reach $14.3 billion by 2008 (estimate RJ&A, VDC).

This market segment is more or less equally divided between consumables/software and hardware, accounting for, respectively, $5.3 billion and $5.7 billion (linked to units produced). However, numerous players are active in the consumables/software segment, while there are only a few manufacturers dominating the hardware segment (Symbol, Intermec, etc...).

Barcode industry (in billion $)	2004	2008	CAGR
AIDC Software	2.1	2.5	4.0%
Consumables	3.2	3.7	4.0%
Printers	1.7	2.3	8.5%
Scanners	1.6	2.0	7.2%
Mobile computers	2.6	3.8	9.7%
Total	**11.1**	**14.3**	**6.5%**

Source: VDC, RJ&A, Zetes' estimates

5.5.2. RFID

RFID involves the use of tags with the ability to transmit and receive data over radio frequencies. It enables data exchange between reading devices and items carrying RFID tags. The vision behind the advances in this technology is to uniquely identify everything on the planet. Supply chain excellence through global visibility is the main growth driver for this technology — the ideal scenario being to have the right materials, in the right condition, at the right place, at the right time.

The biggest hitting applications for RFID in Goods Identification include applications in the retail and manufacturing sectors:

- Supply chain management;
- Inventory management;
- Out of stocks;
- Warehouse management;
- Theft prevention;
- Track and trace;
- Transportation and logistics;
- Asset tracking;
- Demand planning;
- Order fulfillment management.

RFID has advantages and disadvantages compared to other data capture technologies. Although RFID has been around for many years, it is just now that its adoption as a data capture technology is gaining interest with many drivers creating a demand for it. However, despite these numerous growth drivers, inhibitors present significant barriers to the general adoption of this technology in the near-term. The following table shows some of these characteristics.

Advantages
Read/write one or many tags at a time Provide unique item identification Do not require line of sight or contact between readers and tags—they see through dirt, smoke, moisture
Disadvantages
Cost of tags Transmission issues
Growth Drivers
ICAO worldwide recommendations for e-passports including RFID tags. Mandates by Wal-Mart and the US Department of Defense Supply chain excellence Material and data flow synchronization
Inhibitors
High on-going per item overhead cost Not very well defined—global standards are proving challenging Technology performance issues

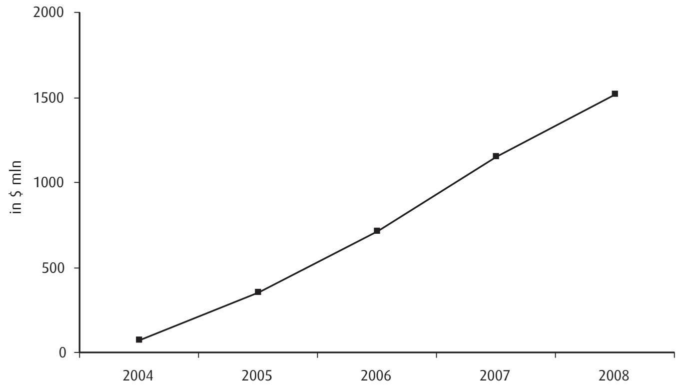
RFID systems involve RFID tags, RFID readers, RFID printers. Main manufacturers are Intermec, LXE, Symbol and Zebra.

Market size and outlook

RFID has been around for about 60 years. It was first used in World War II to track allied planes. RFID represented a $1.8 billion market in 2004 across many familiar applications, including security/access control and automated toll collection. The overall RFID market is expected to grow with an 18% CAGR over the next four years to reach $3.5 billion at the end of 2008 (VDC, company estimates).

While the technology is not new, it is being driven to accelerated growth by a new impetus: the Wal-Mart and Department of Defense mandates to use RFID to streamline their supply chains. As far as the Goods Identification market is concerned, Zetes' primary interest lies with RFID applications that improve supply chain management. While supply chain solutions are a small component of RFID sales today — less than $100 million — as is shown in the figure hereunder, VDC projects it to grow 20-fold in the next four years to a $1.5 billion market.

RFID Industry: supply chain segment of the RFID market



Source: VDC, 2004

5.5.3. Voice recognition

Voice recognition involves the translation of human speech input into data collection input and data output into speech output. When integrated with mobile computers and wireless LANs, voice recognition dramatically increases the productivity and data capture speed for mobile workforce applications.

Voice Recognition has significant immediate growth potential. Market demand is strong and the technologies — voice recognitions engines, mobile computer processing power, and sufficient memory capacity — have come together to make solutions possible that can address the demand.

Many applications are targeted as candidates for voice recognition solutions:

- Warehouse / distribution operations;
- Inventory management;
- Quality control;
- Field service, utility meter reading;
- Healthcare.

Voice recognition allows parallel tasking, which brings significant productivity increases in these applications compared to paper- or handheld-based solutions. With paper-based systems, as with handhelds, users alternatively 'work' and 'communicate', 'work' and 'communicate'. This process slows workers down and causes time to be lost during the work-routine. Voice recognition solutions, on the other hand, allow for simultaneous communications while handling product. Therefore the same amount of work can be completed in less time.

In addition, an independent research performed by the University of Dortmund investigated error rates of various technologies commonly used in warehouse picking operations. Their research shows that compared to other warehouse picking technology solutions, such as paper, pick-to-light, handhelds, and pick-to-label, voice recognition systems, with an average overall accuracy of 99.92%, produce, on average, the lowest error rates by a significant margin.

Since voice recognition brings both significant productivity improvement and data accuracy improvement to operations, warehouse picking, which represents over 40% of labor costs and over 45% of errors in warehouse operations, presents a great opportunity for Zetes for voice recognition implementations. Using warehouse picking to justify their initial investments in voice recognition implementations, companies will, over time, leverage their investments to improve their other operations.

The following table summarizes some of the advantages, disadvantages, primary growth drivers, and inhibitors of voice recognition.

Advantages
Variable data, intelligent input—other data capture technologies have fixed data Parallel tasking—move an item while inputting information about the item
Disadvantages
Significant initial investment Most voice recognition solutions still are proprietary solutions running on proprietary hardware
Growth Drivers
Increased mobile worker productivity Increased data accuracy High return on investment
Inhibitors
Until recently, few vertical applications available—warehouse picking only Lack of professional audio capability and peripherals on open-systems hardware platforms

Main vendors of voice recognitions systems are Vocollect, Voxware and Genesta/Syvox

Market size and outlook

Voice recognition technology has shown steady growth over the last few years. Within the Goods Identification market, which is Zetes primary interest, the technology is proven and the market demand has attracted the interest of traditional device manufacturers that are beginning to integrate the technology into standard mobile computing platforms.

For Goods Identification related Voice applications, RJ&A expects revenues of approximately $95 million in 2004 and believes that the industry can grow at 30% CAGR over the next four years, reaching annual sales of approximately $270 million by 2008.

5.5.4. Smart cards

One of the first card technologies adopted for general use was the Magstripe card. These cards are slowly disappearing but are still used in the USA and Canada. Magstripe is less commonly used in Europe and Asia where Smart Cards have quickly become the standard.

Paper IDs no longer provide adequate information to confirm an individual's identity for many countries. Consequently, a new medium is necessary to provide sufficient information on every credential or ID card to verify entitlements before granting access. With its electronic attributes — its processing capabilities and ability to support multi-applications, store data, and handle updates — taken together with its physical attributes — its durability and convenient size, the smart card is the most suitable and cost effective technology available today for this new generation of IDs, commonly called electronic identification or eID.

Smart Cards involve an embedded micromodule (chip) on a plastic substrate or card. Smart Cards may be contact or contactless. In the case of contactless (RFID) smart cards, an on-board antenna supports communications between the chip and a smart card reader. The chip's internal power is derived from the reader's signal.

Typical Smart Card applications include:

- GSM telephones;
- Debit cards;
- Pay telephones;
- Mass transit fare payment;
- Retailer loyalty cards;
- National ID cards / drivers licenses;
- Healthcare cards;
- Passports / Visas;
- Hospitality.

The following table summarizes some of the advantages, disadvantages, growth drivers, and inhibitors of smart cards.

Advantages
Secure by design Memory — capacity for considerable amount of information Powerful processing capabilities including data encryption Multi-application use Long-term use
Disadvantages
People always need to carry it with them to use the smart (ID) card's multi-applications Visible cost is relatively high due to faster renewal cycles (rapid chip technology evolution)
Growth drivers
Suitability for People Authentication applications: ICAO recommendation National e-government initiatives Security Concerns Migration to EMV (Europay, MasterCard, Visa) standard
Inhibitors
Privacy issues Capital Intensive

5.5.4.1 Main manufacturers

Chips for Smart Cards	**Smart Cards**
Atmel Infineon Philips Samsung ST Microelectronics	Axalto Gemplus ST Microelectronics
Smart Card Readers	**Terminals**
ACS G&D Gemplus Omnikey SC Microsystems Xiring	Ingenico Thales Verifone Xiring

5.5.4.2 Market size and outlook

According to Eurosmart estimates, 2.3 billion smart cards were shipped in 2004. Taking into account an average selling price of €2 per card in 2004, the total smart card market size for 2004 can be estimated to be around $4.6 billion. Eurosmart has published data stating that 2,314 million smart cards were produced globally in 2004 representing a 50% growth compared to 2003. (Note that the smart card market research data represents total physical units shipped and not related revenues).

In million units	2004	Growth in % from 2003
Telecom	1,760	57%
Financial Services	315	37%
Government / Healthcare	65	12%
Others	174	38%
Total	2,314	50%

Source: Eurosmart, 2005

The smart card sector is mainly built around the telecom and financial industry, with government and healthcare segments becoming increasingly important over the coming years. The replacement cycle for GSM SIM cards (see "Business glossary") in Europe will continue in 2005 and 2006 as telecom operators issue more expensive, higher margin/capacity cards trying to increase Average Revenue Per User. In addition, in the financial industry, EMV roll-out around the world and, more particularly, in Europe should accelerate in 2005 and 2006. As a result the smart card for financial services is expected to present attractive growth prospects.

Wireless telecom, financial services, and ID security are considered as the main smart card markets for the coming years. While the deployment of smart cards in the first two sectors is already massive, the strongest growth in terms of CAGR will be generated in the governmental market. In the coming years, important growth is expected in the telecom and financial sectors with CAGR of 15% and 10% respectively for the period 2004 – 2006. However, fastest growth is expected in the government and health care sectors with a CAGR of 42% for the same period. It is foreseen that the overall smart card market will reach a value of $6.5 billion by 2008, representing a CAGR of 8.8% (source Eurosmart, Company estimates).

	CAGR 2004 - 2006
Telecom	10%
Payment cards / Retail + loyalty	15%
Governement / Healthcare	42%

Source: broker reports, Eurosmart, Company estimates

These market estimates relate primarily to mass smart card production. However, Zetes' interest is in smart card production requiring high value-added personalization services for People Authentication solutions such as those that are being driven by Government initiatives and mandates for national identity cards, healthcare cards, visas, e-passports, and voter identification cards.

In addition to the constant growth in the card business itself, important growth will also be achieved in related hardware and software.

5.5.5. Biometrics

Biometric technologies include fingerprint identification; iris identification; retinal identification; facial feature identification; hand, palm and wrist geometry; signature identification and signature capture; voice identification; keystroke dynamics identification; and ear identification.

For environments requiring very secure identifications, biometrics, such as fingerprints, provide the most reliable means of authentication or identification of people with suspect ID documents or no ID documents at all. Biometrics are nearly impossible to forge. Consequently, their use in identification systems is invaluable for fraud detection. Today, fingerprinting is considered to be one of the most suitable biometric technologies for People Authentication.

AIM Global summarizes fingerprinting in Auto-ID very well:
"The best known biometric systems are those that identify persons using their fingerprints. The chance of two people having the same print is less than one in one billion. False-rejection rates average 3 percent of authorized users; false-acceptance rates are less than one in one million. Automatic fingerprint identification systems (AFIS – see also "Business glossary") have traditionally been used by law enforcement agencies. Use is now expanding into social services applications to identify those who claim welfare benefits, to monitor prisoner movement, to confirm health spa membership, at border crossings, and even at banking kiosks. AFIS systems are also gaining in popularity for security and access control applications. Fingerprint identification, coupled with time and attendance software, prevents employees from "buddy punching" (see "Business glossary")".

The following table summarizes some of the advantages, disadvantages, growth drivers, and inhibitors of biometrics.

Advantages
Highly reliable form of authentication Allows trade-off between false acceptance / false rejection rates to suit security requirements
Disadvantages
Measurements can require much more time than conventional authentication methods Inconvenience for users for applications requiring very low false rejection rates Errors in measurements are possible
Growth drivers
Government concern for security International requirements for travel documents Developing countries: compensate for the lack of complete and reliable population register
Inhibitors
Questions of accuracy Demand for very low false rejection rates in some environments, such as financial markets Privacy issues

Main manufacturers involved in fingerprinting scanners, fingerprint analysis and comparison algorithms are:
- Cogent;
- NEC;
- Smiths-Heimann;
- Sagem;
- ST Microelectronics.

Market size and outlook
Biometrics has served for years as the identifier of individuals. From forensic fingerprint matching to visual verification of a person's identity on an identity card or driver's license, society has relied on biometrics to match and verify identities. Due to recent events such as 9/11 and the increase in identity theft and fraud, the need for stronger verification has grown substantially. Biometrics provides accuracy and security, with a superior cost-benefit ratio. The public acceptance of biometric identification products has begun.

The biometrics industry is dominated by fingerprint identification, which has historically been the industry leader. Facial recognition has stolen headlines in recent years with its use at casinos and its ability to be used covertly. Although accuracy rates have been questioned, facial recognition is predicted by many industry analysts to grow at a 45% CAGR through 2009. Currently fingerprint represents 48% of the market, with facial at 12%, and eye at 9% (source IBG).

With large government projects taking shape both domestically and internationally, and commercial opportunities becoming available, the biometric industry could see healthy growth opportunities. According to IBG, the biometric industry is expected to grow from $1.2 billion in 2004 to about $4.6 billion in 2008 representing a 40% CAGR. This growth is spurred by the recent legislation that mandates that biometric information be collected at borders and used as verification. Biometrics was highlighted by the 9/11 commission as a key initiative that could provide the type of security required to protect US borders.

5.5.6. Mobile computers
In the Auto-ID industry, Mobile Computers usually refer to small, portable, ruggedized, wireless computing and communication devices with integrated data capture technologies. These devices may be used either for batch data collection with subsequent upload to a host computer, or for real-time operational interaction with an enterprise resource planning (ERP, *see also "Business glossary"*) system, warehouse management system (WMS), BackOffice application, or enterprise database. VDC estimates that in 2003, mobile computers represented $2.4 billion with an estimated CAGR of 9.7% through 2009.

Designed to maximize mobile worker productivity, mobile computers have become standard operating equipment in every segment of every vertical market. Many advantages and growth drivers with few disadvantages and inhibitors continue to create significant demand for traditional Auto-ID mobile computers. The following table shows some of these characteristics.

Advantages – compared to consumer PDAs
Many form factors
Integrated Auto-ID technologies — barcode scanners, image scanners, RFID readers
Integrated WLAN and WWAN (see "Business glossary") radios for real-time operations
Ruggedized — sturdy cases, waterproofing, humidity resistance, shock resistance
Disadvantages – compared to consumer PDAs
Size and weight
Price
Growth drivers
Enterprise mobility
Real-time operations
Accelerated replacement of existing mobile computers as enterprises seek to benefit from new technologies
Proven return on investment
Inhibitors
Considerable upfront capital expenditures make for very long sales cycles and cost justifications

Main manufactures of mobile computers are Datalogic, Fujitsu, Intermec, LXE, HandHeld Products, PSC, Psion Teklogic and Symbol.

6. ZETES' ACTIVITIES

6.1. BRIEF COMPANY OVERVIEW

Zetes is a leading pan-European system integrator deploying value-added solutions for Goods Identification and People Authentication applications in the Automatic Identification (Auto-ID) industry.

Established in 1984 with headquarters in Belgium, the Company has grown both organically and through acquisitions, and today has subsidiaries in 8 European countries (Belgium, France, Germany, Ireland, The Netherlands, Portugal, Spain, and the United Kingdom) and employs currently 440 employees (in FTEs). The Company generated revenues of €100.8 million in 2004 on a consolidated basis.

Offering full system integration services to create complete solutions, Zetes concentrates its efforts on two main business segments:

- *Goods Identification*: Zetes designs, develops, and delivers complete Goods Identification solutions for such applications as manufacturing work-in-process, warehouse picking, retail shelf price management, maintenance work order planning, transport freight management, and mobile sales proof of delivery.
- *People Authentication*: Zetes creates complete People Authentication solutions involving the creation of secure documents such as national identity cards, health cards, voter identity cards, campus ID cards, e-wallets, and pre-paid cards, for governments, institutions, financial services, insurance, public transport, and telecoms. Zetes is focused on the government and institution market segments, but is also active in other market segments where high-touch value-added solutions are required.

Zetes is experiencing a convergence between the Goods Identification and People Authentication markets. The Company believes that, eventually, the lines separating the two will become more and more blurred until they completely disappear and one integrated market emerges. As Zetes is active in both markets, this convergence is very beneficial to the Company.

6.2. BRIEF HISTORY

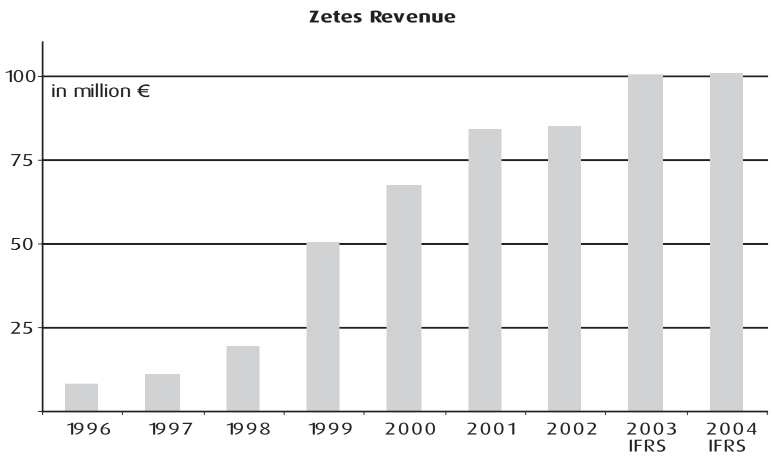
Zetes was established in 1984 with headquarters in Belgium. It quickly developed a reputation for being an expert system integrator in the Auto-ID industry, and with customer references such as Colruyt and The Belgium Post *(De Post / La Poste)*, grew to be a Belgian leader in what is known today as the Goods Identification market. In 1993, the Company started to earn recognition outside Belgium through contracts with international organizations such as Alcatel, Thomson, and Yves Rocher.

In 1998, Zetes made a strategic decision to extend its Belgian Auto-ID expertise throughout Europe. Over the next few years, Zetes expanded its geographic presence to become the pan-European solutions provider it is today with subsidiaries in 8 countries: Belgium, France, Germany, Ireland, The Netherlands, Portugal, Spain, and the United Kingdom.

In 1999, with the acquisition of Cards Encoding Cy, Zetes launched a strategic initiative to add People Authentication to its activities. Zetes' early successes in this market include the implementation of Belgian eID Cards and national health cards, and the United Nations' contract. These large-scale deployments demonstrate Zetes's ability to transfer, to its People Authentication deployments, competences acquired during its 20-year experience in the field of Goods Identification deployments.

Nowadays, Zetes is a pan-European market leader[7] for Goods Identification and an EMEA leader for advanced People Authentication solutions.

The graph below shows the evolutions of Zetes' revenues.



Source: Company

6.2.1. Growth – organic and acquisition

Zetes' pan-European geographic expansion was achieved both by opening subsidiaries abroad (greenfield operations) and through acquisition, as shown in the following tables:

Organic growth	
Year of expansion	**Position in Zetes Group**
1992	Zetes France
1992	MCL Technologies (Belgium)
1995	Zetes Portugal
1998	Zetes UK
1999	Zetes FasTrace (Belgium)
2002	Zetes PASS (Belgium)

Growth through acquisition		
Year of acquisition	**Acquired company**	**Position in Zetes Group**
1998	Burotica	Zetes Burotica Portugal
1998	Europdata	Zetes Belgium
1999	IND	Zetes IND Germany
1999	Cards Encoding Cy	Zetes Cards
2000	AIS – AIP	Zetes Netherlands
2000	Tomorrow Solutions	Europdata Connect (sold in 1Q 2005)
2000	Blackbird	Zetes Blackbird Ireland / UK
2001	Multicom	Zetes Multicom Spain

[7] Since there is no public market figures available to illustrate this position, Zetes' affirmation is based on its own market intelligence related to the services similar to the ones offered by Zetes.

6.2.2. *Other relevant historical facts*

The following table summarizes other relevant historical facts about Zetes:

Other relevant historical facts	
Year	**Activity**
1985	Starts selling Symbol Technologies' barcode scanners. Starts selling Zebra Technologies' printers, printer consumables, and software to print barcodes.
1987	Deploys first major system involving barcode scanners to Colruyt, one of Belgium's largest retailers.
1990	Starts large deployment of scanning system in the points of sale of Inno (GIB Group). Starts deployment of scanning system in the European hub of DHL at Brussels Airport.
1991	Earns new major references in private and public sectors: GIB (for all GB sales outlets), Promedia, Spadel, Baxter, Sabena, De Post/La Poste, Ministry of Justice.
1992	Creates first version of MCL-Collection (see section 6.5.8.1).
1993	Starts to gain recognition outside Belgium with strong international references: Alcatel, EDF, Thomson, Yves Rocher
1997	Becomes one of the first system integrators to implement successful RFID projects in Europe.
1998	Makes first international acquisition following its strategic decision to become European leader.
1999	Enters into People Authentication market with smart card production and personalization for eID applications. Introduces self-scanning systems at Delhaize, a leading Belgian supermarket chain. Supplies MCL-Collection to US Department of Defense via contract awarded to Symbol Technologies.
2000	Deploys Goods Identification system with ERP integration in all warehousing buildings of the NAMSA (NATO Maintenance & Supply Agency).
2002	Wins prime contract for Belgian eID cards. Wins contract for renewal of Belgian National Health Cards. Forms strategic partnership with Vocollect, a global player in voice technology and voice-directed systems.
2003	Official launch of the Belgian eID card. Delivers first voice projects in Germany, France, Belgium.
2004	Symbol appoints Zetes as Premier Solutions Partner+. Signs agreement with Intermec and becomes Intermec Premier Solutions Partner. Supplies MCL-Collection to US Department of Defense via contract awarded to Intermec. Brings voice solutions to the retail and logistics industries, for warehouse operations.
2005	Wins United Nations' contract for voter registration in the Congo (see section 6.5.5). Sells its distribution activity (see section 7.2.3).

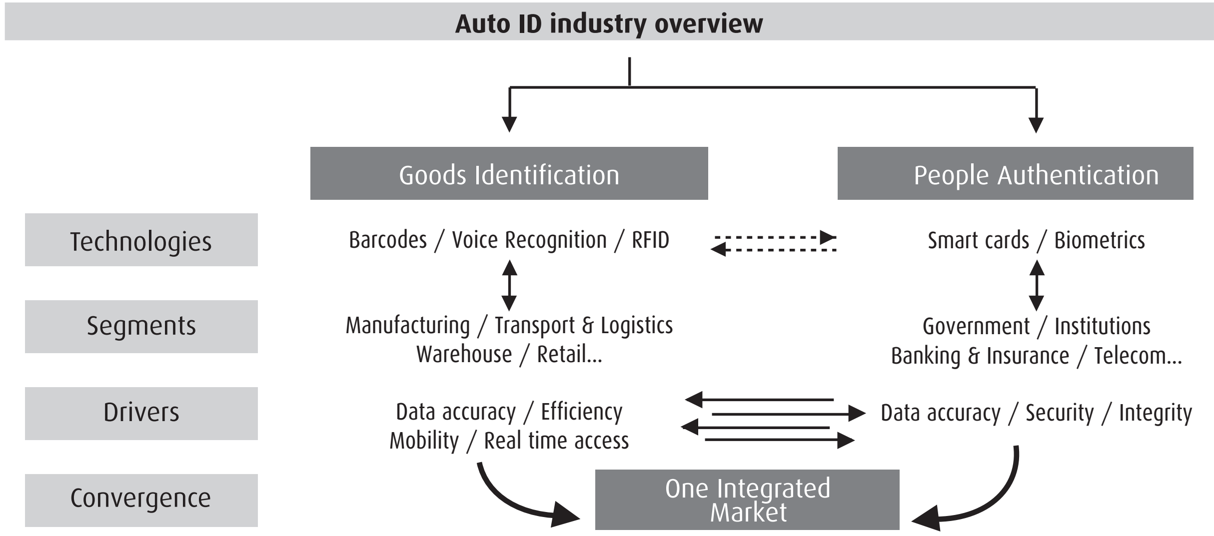
6.3. MISSION, VISION AND STRATEGY

6.3.1. *Mission statement*

Across national boundaries, across markets and across technologies, Zetes is committed to having a positive and tangible impact on its customers and its stakeholders.

Zetes is committed to optimizing the business performance of its private and public customers through the delivery of solutions that increase data accuracy and security and increase productivity, efficiencies, cost savings and profitability.

6.3.2. *Vision: convergence between the Goods Identification and People Authentication*



Source: Zetes

Zetes envisions a convergence between the Goods Identification and People Authentication markets. The lines separating the two will eventually become more and more blurred until they completely disappear and one single integrated market emerges.

Zetes has strategically positioned itself in both markets with the intention of leveraging the convergences it envisions in technologies, growth drivers, and competences.

6.3.2.1 *Convergence of technologies*

Barcodes are usually thought to be suitable for Goods Identification, and smart cards are usually thought to be suitable for People Authentication. However, contrary to conventional thinking, Zetes mixes and matches technologies to create innovative solutions that provide the best technology for a given situation—be it barcodes for a People Authentication solution or RFID chips for a Goods Identification solution.

6.3.2.2 *Convergence of growth drivers*

Security and integrity have traditionally been growth drivers for the People Authentication market (see section 5.3.1). Since Zetes sees a growing need for security and integrity, and encryption technologies in Goods Identification solutions, the Company's strategy is to leverage its position and introduce these protections to the Goods Identification market.

Similarly, efficiency, real-time processing and mobility are long-standing Goods Identification growth drivers that are growing in demand in People Authentication solutions. Zetes intends to bring these capabilities to the People Authentication market.

6.3.2.3 *Convergence of service competences*

Over its 20-year experience in implementing Goods Identification solutions, Zetes has acquired many services competences it now uses in its People Authentication implementations. In fact, Zetes' successful entry into the People Authentication market is due, in part, to the transfer of competences made possible by this convergence.

This is particularly evident in the Company's management of large deployments. Zetes has found that a roll-out to 10,000 local authorities or a roll-out to 500 business-to-business (B2B) sites involves similar logistics, project management, allocation of resources, processes, and procedures. Zetes' recent successful deployment of voter registration kits in the Congo is a concrete example of this convergence and Zetes' ability to leverage it.

6.3.2.4 Convergence examples

Zetes sees many examples of these convergences, a couple of them are described below.

a. eGovernment

The need for accurate data collection integrated with accurate people authentication has become the concern of e-governments. The eGovernment approach of the Belgian government, for example, is outlined below[8]:

"Single identification keys for e-government:
The exchanging of information could be greatly simplified and the accuracy of information exchange could be better safeguarded through the use of common identification keys within all (governmental) information systems. Of course, the presence of such keys makes it easier to interlink data. That's why we propose subordinating the interconnection of information to a previous authorization made by an independent committee. But when information exchange is allowed through such an authorization, it should take place in a way that best guarantees the accuracy of the information exchanged.

Each entity (e.g. a person, a company, a plot of land, ...) that might be the subject of information management or exchange should have an identification key, with which the entity is identified within all (governmental) information systems. These identification keys should be:

- single: this means each entity has only one identification key, and that the same identification key is not assigned to several different entities;
- exhaustive: this means every entity to be identified has an identification key;
- stable over time: this means the identification key doesn't contain variable characteristics of the identified entity, doesn't contain references to the identification key or characteristics of any other entities, and doesn't change when a feature of the entity being identified changes."

b. Campus ID-card

The Belgian University UCL *(Université catholique de Louvain)* recently placed an order with Zetes for a secured ID-card solution to provide its entire staff and more than twenty thousand students with ID cards.

This ID-card incorporates a contact chip, with cryptographic CPU and memory, as well as an RFID chip with embedded antenna (a magnetic stripe will also be used temporarily). UCL's ID-card will be used for multiple purposes including:

- Access to car parks, buildings and libraries.
- Access to computers and applications.
- Protection of confidentiality of internal emails and documents using electronic signature and encryption.

Other applications that are expected to follow include access authorization to specific equipment such as copiers, access authorization to services such as sports, and electronic wallet.

This implementation demonstrates the use of RFID in People Authentication solutions. Unlike Goods Identification implementations of RFID, which, today, are primarily static, this People Authentication implementation is only partially static. It is static when used to recognize room access authorization or parking lot access, but dynamic when the chip is used as a campus e-purse.

[8] *Source: Fedict, "E-government: the approach of the Belgian federal administration", June 2003, chapter 4.3*

RFID technologies have a common backbone on which Goods Identification and People Authentication solutions are implemented with their own requirements.
This example demonstrates the technology convergences seen by Zetes and the benefits it derives in having competences in these technologies and markets to create innovative solutions.

6.3.3. Business strategy

Zetes' business strategy is to have a leading position as a profitable system integrator in both markets of the Auto-ID industry and to exploit its competences to provide value-added solutions.
Zetes' strategy is to focus on high value-added business by providing complete solutions. To accomplish this, Zetes will remain a technology-independent system integrator. Although the envisioned convergences are bringing increasing overlap, there are still distinctions between the mature Goods Identification market and the emerging People Authentication market that currently necessitate differences in Zetes' strategy in approaching these two markets.

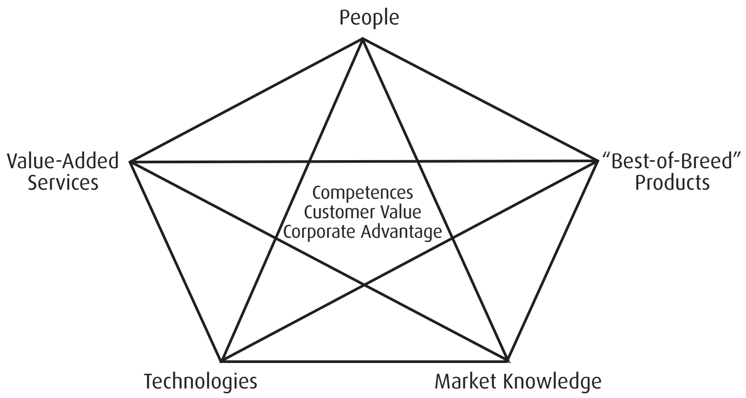
Regarding Goods Identification, Zetes' objective is to develop and consolidate its current leadership as a pan-European system integrator. Through its direct presence in 8 countries, Zetes is strongly positioned to develop, implement, and maintain Goods Identification projects for multinational companies. This position gives Zetes a competitive advantage it plans to leverage and grow. Through selected acquisitions and potentially through greenfield operations, Zetes intends, in the years to come, to broaden its geographical coverage even more by expanding into new territories and strengthening its presence in some existing territories. The Company's strategy is to bring value to its markets through the implementation of value-added services backed by an organizational structure that gives the customer access to local resources that understand the customer and maintain long-term customer relationships, and to centralized transnational resources (Zetes' competence centers) that specialize in new technologies and innovative solutions.

Regarding People Authentication, Zetes' objective is to develop and consolidate its position as a strong player in this emerging market. Its strategy is to focus on high value-added business. That is to say, Zetes does not intend to be a commodities player. In People Authentication this strategy translates into a focus on opportunities arising in government and institution segments: for example, the delivery of complete solutions containing secure documents, such as multi-application ID cards, e-passports, and biometric registration and voter's solutions.
Zetes intends to extend its international reach in EMEA primarily through organic growth. However, Zetes will also grow through acquisition if it identifies opportunities to acquire technological competences, expertise, or intellectual property that will complement and strengthen its position in the People Authentication market.

6.3.4. Corporate strategy

Zetes uses its corporate strategy as a tool that directs executives' decisions to keep Zetes' activities aligned with its objectives.

Zetes' corporate strategy has multiple interconnected facets — building blocks — to further the Company's leadership position through the competences, customer value, and corporate advantage they engender.



The first building block of its strategy is to invest in people. As a solutions provider, Zetes' success is dependent upon the people who provide its services. Consequently, it is essential for Zetes to foster dedicated experienced talents across a wide range of disciplines including, but not limited to, hardware design, hardware maintenance and repair, project management, software programming, networking, software helpdesk, and consulting. Zetes has made a conscious decision to continue to attract and retain this high quality of associate.

The second building block of its strategy is to only integrate best-of-breed hardware and software components into the solutions it implements. Zetes does not intend to compromise on the quality of the various components it uses to design a solution. This results in implementations that remain highly reliable over long periods of time.

The third building block of its strategy is to remain very close to the market. The most significant added value Zetes delivers comes from its ability to first understand customers' needs, and then to translate those needs into business processes addressed with solutions integrating proven technologies.

The fourth building block of its strategy is to constantly monitor the evolution of technology in order to optimize the integration of technologies to answer market requirements most proficiently. Zetes' execution of this strategy is to establish dedicated competence centers, such as Zetes Voice and Zetes RFID, to concentrate the necessary knowledge and experience about these technologies.

The fifth building block of its strategy is to continue to be a high-touch, value-added player. As part of its execution of this strategy, Zetes nurtures long-term business relationships with its customers. Zetes does not intend to be a "hit and run" company. For example, when proposing a solution, Zetes also proposes support and service for the lifetime of the implementation.

6.3.5. Company positioning

Zetes' position as a system integrator in the Auto-ID industry can be summarized as having four dimensions: the markets it targets; the technologies it masters, the value-added services it offers, and the broad geographic territories it covers. This section gives an overview of Zetes' perspective on each of these dimensions.

6.3.5.1 Targeted market segments

Applications for Goods Identification are found in many market segments. In fact, any organization concerned with the movement and management of goods is a candidate for a Goods Identification solution to capture information about the movement of said goods. Over the years, Zetes has acquired know-how in a number of market segments that it continues to target today for its Goods Identification solutions:

Manufacturing applications	Maintenance applications
Incoming inspection and control Material staging management Work in process Time and attendance Quality control Pick, pack, and ship Just in time automation Kanban automation Foods and goods traceability Inventory management	Mobile and paperless enterprise asset management Work order planning, picking and follow-up Spare parts and stock management Serial number tracking Orders receipt Time and attendance registration Access control

Warehousing	Transport
Goods receiving Location management, put-away Replenishment Picking Cross docking Packing and shipping Container and pallet management Quality control	Inbound and outbound activities Fleet and inventory management Fleet inspection and maintenance Freight management Planning and dispatching Vehicle and driver performance monitoring Delivery processes and proof of delivery
Retail stores	**Mobile sales and service**
Markdown, replenishment and reordering Shelf and price management Staff monitoring Customer management In-store promotions and marketing Check-out processes	On-site selling, invoicing and ordering On-site proof of delivery Van delivery services Field customer management Automatic routing and wireless dispatch Work order management Field services and tracking of maintenance, repair and operations Remote assistance and helpdesk Parts, material and inventory tracking Utility meter reading—gas, water, electricity

People Authentication implementations involve the production and use of trusted credentials to verify that individuals are who they claim to be. Although virtually every enterprise and entity has a need to verify an individual's identity at one level or another, the most demand for high value-added people authentication, today, is found in the government and institution sectors. Consequently, Zetes is focused on government and institution market segments, but is also active in other market segments such as banking, insurance, public transport, and telecom for applications where high-touch value-added solutions are required.

Government applications
Multi-application electronic ID cards (see section 6.5.4) E-passports including biometrics Driver's licenses Social security cards and health cards (cards, software and terminals) Terminal integration & middleware to be used with these e-devices Biometric registration kits
Institutions' applications
Campus cards Private entitlement cards Employee and temp badges
Banking and payment applications
Debit/credit cards e-purse cards and terminals eID integration
Insurance applications
Low cost membership cards
Public transport applications
High-end contactless cards (season tickets, pre-paid travel cards, etc)
Telecom applications
Mobile phone SIM cards Mobile phone recharge using virtual codes

6.3.5.2 Technology independent

Zetes is not locked into or gambling on any individual technology or supplier. Rather, it uses whichever technology or supplier it believes is most suitable for a given solution.

Barcodes are the most mature and pervasive of the identification technologies. Zetes expects barcodes to continue to be the technology of choice for low cost, low security Goods Identification and People Authentication applications.

RFID and its numerous growth drivers hold promise for supply chain improvements in Goods Identification. However, this technology is equally suited to People Authentication applications for electronic wallets or for authorizing an individual access to a parking lot, building, or office within a building.

New technologies, such as voice recognition, are creating new opportunities for Zetes. Improved productivity and data accuracy in Warehouse Picking are the main growth drivers for this technology. Zetes has implemented several successful voice recognition solutions and has a team dedicated to growing this segment of its business. With its early entry into this market segment, Zetes has developed a strong expertise in voice recognition that positions the Company well to capitalize on this nascent and potentially high-growth market.

Other new technologies, such as smart cards, biometrics, and public key infrastructure (PKI, *see also "Business glossary")* along with their growth drivers — such as the quest for increased security — are creating opportunities for a new breed of Auto-ID applications relating to People Authentication.

In addition to using these identification technologies, Zetes also uses identification products, communications, and integration technologies to create complete solutions.

6.3.5.3 Value-added system integrator

Identification/authentication, communication, and integration are the three pillars on which Zetes builds Auto-ID solutions. As a system integrator and value-added solutions provider, Zetes not only masters technologies but also the combination and seamless integration thereof.

Zetes designs, develops, and delivers complete solutions that tie into, for example, enterprise resource planning systems, warehouse management systems, or government systems requiring electronic people identification.

As a value-added organization, Zetes provides a full range of system integration services from initial consultancy, analysis, project management, development, integration, and system building, to implementation, installation, roll-out, training, and on-going support and maintenance.

Furthermore, as a system integrator and value-added organization, Zetes is not a box mover or a "body-shop", nor is it in the commodities business. In the Goods Identification market, for example, Zetes does not sell products. It sells solutions integrating hardware, software and services. Similarly, in the People Authentication market, Zetes does not produce mass volumes of identical smart cards that could be outsourced anywhere in the world for high volume production at minimum per unit cost. Zetes is involved in high-touch value-add. A Zetes' People Authentication secure document project, for example, typically involves the personalization of smart cards with individual data, security, encryption, communications, protocol layers, and application software.

The range of Zetes' services offerings, taken in conjunction with its pan-European coverage and international reach, positions Zetes uniquely to service national, multinational, and international accounts.

An exhaustive description of the services offered by Zetes is beyond the scope of this document. However, the following gives an indication of the services available and the broad range of Zetes' services competency.

Consultancy

Zetes' consulting services include business consultancy; Auto-ID systems design; Auto-ID wireless networking analysis and design; and software implementation consulting. Each of these includes extensive service offerings. For example, business consulting includes analysis of customer requirements; explanation of how a Goods Identification or People Authentication implementation can functionally meet the customer's expressed needs; and analysis and modeling of expected return-on-investment.

Analysis

Zetes' analysis services include terminal analysis and design; server analysis and design; RF site surveys; site surveys; and security analysis. Examples of the analysis services offered by the Company include specification of functionality, files, messages, barcodes, tags, biometrics, cryptography, and screen design; specification of processing rules for fixed terminals, mobile terminals, and servers; and specification of the IT connecting environment/deployment infrastructure.

Project management

Zetes offers program management and project management depending upon the size/scope of a project. In both cases, Zetes employs currently accepted best practices for project management. Project management is used for smaller implementations, while the more elaborate program management is used for large and complex projects. These projects typically involve pan-European or international deployments and/or the development and integration of new technologies. For example, the Company's recent voter registration project in the Congo (see section 6.5.5) was executed using program management.

Development

Zetes' development services include terminal and server software development and test; custom hardware development and documentation; and hardware pre-integration testing (prototyping). Prototyping services include, for example, setup of a first equipment configuration; evaluation of the prototype system; and acquisition of customer acceptance of the prototype before proceeding to the staging or installation phase.

Integration/implementation

Zetes' integration services include, for example, the software integration of terminal and server applications to host systems such as warehouse management systems, enterprise resource planning systems, government service systems such as national registries, healthcare services, and so on.

Personalization of smart cards and ID documents

For the creation of official ID documents and bank cards Zetes offers a highly secured production environment which has passed the scrutiny of global credit card issuers, banks and the security services of various governments. This production environment includes high value-added personalization services — each card is personalized during the production process.

Zetes also offers secure distribution services for delivery of secure documents to their rightful owners.

System building/installation/roll-out

These services include hardware staging; hardware on-site installation; and terminal and server software installation. Some of the activities included in the delivery of these services include:

- Staging of hardware deliveries;
- Testing of printing, scanning, and networking equipment before shipping to customer;
- Pre-configuration of devices with network addresses and applications;
- Coordination of hardware deliveries with the logistics department;
- Connection and parameterization of hardware;
- Delivery and installation of software on the customer platforms;
- On-site verification testing.

Support / maintenance / repair

Zetes' support services include a help desk, hardware troubleshooting, and maintenance contract services.

When proposing a solution, Zetes also proposes support and service for the lifetime of the implementation. Whether for the continuous flow of a critical supply chain, or the smooth enrolment of voters, Zetes is committed to solving problems for the customer.

Zetes has a help desk for on-going customer support. Every Zetes customer has access to the help desk for technical advice concerning problems encountered with the products installed on its premises.

Zetes' hardware troubleshooting activities include on-site problem diagnosis; checkup of the installed equipment; LAN, WLAN, and serial communications traces; attempts to reproduce and capture communication problems; and proposals for corrective actions.

Zetes offers maintenance support for custom developed terminal or server software; and support for cabled and wireless networks. Phone, email, on-line, or on-site support options are available.

Finally, Zetes also has a maintenance and repair centre for on-going customer service. Various service contracts are available depending upon the customer's needs. Each style of contract has different cost/benefits associated with it. The available service offerings include:

- Warranty period only (no service contract required);
- Service contracts that include or exclude the warranty period;
- Service contracts that begin during or after the warranty period.

Training

Zetes' offers a full range of educational activities at the "end-user" level or at the "train the trainer" level. Examples include terminal and server application on-site training; hardware on-site training; on request training; and Goods Identification and People Authentication seminars.

6.3.6. Geographic presence

Zetes has international reach, and a pan-European presence offering complete integration service in 8 countries.

Belgium	Brussels - Zetes corporate headquarters Waterloo - MCL Technologies (see 6.5.8.1) Undisclosed - smart card (secure document) production and document personalization facility
France	Paris
Germany	Hamburg Willich
Ireland	Dublin Limerick
The Netherlands	Eindhoven
Portugal	Lisbon Porto
Spain	Madrid Barcelona
United Kingdom	London Manchester

Zetes also has the ability to deploy teams worldwide to roll-out projects. In multi-year project roll-outs, such as a government sponsored People Authentication project, if necessary, Zetes dispatches a team to stay in the host country through-out the duration of the roll-out.

6.3.7. Customers

Zetes has a diversified and high-quality customer base with a cross-section of private enterprises and public entities.

Following are lists of customer references for Goods Identification and People Authentication implementations in Zetes' various target market segments. If a country name is provided, the customer is a national account. If no country name is provided, the customer is a multinational account.

a. Goods Identification

Manufacturing	Maintenance
Alcatel BASF BMW - Germany Bosch Dafgards - Sweden Dow Corning Goodyear Herma – Germany L'Oréal Mitsubishi Caterpillar Forklift Europe Nissan RHM Le Pain Croustillant - UK Rhode & Schwarz SABCA - Belgium Schmitz Werke – Germany Toyota - UK	Air France Industries - France Halliford Construction - UK Nederlandse Spoorwegen - Netherlands
Warehousing	**Transport**
Ceratec Electrotechnics - Belgium Dachser - Germany DHL Solutions Frans Maas Globus Logistik und Services - Germany Logosys – Germany NAMSA (NATO Maintenance and Supply Agency) Sony Europe	BIAC (Brussels Airport) - Belgium CTA (Container Terminal Altenwerder, Hamburg Harbour) - Germany DHL Express SEUR - Spain Strathroy Dairy - Ireland
Retail stores	**Mobile sales and service**
Colruyt - Belgium Covee – Belgium Delhaize Kruidvat/AS Watson Lekkerland Migros - Switzerland MIM – France Netto - Germany Système U - France Ulmar - Portugal V&D - Netherlands	Absalon - Belgium CTT (Portuguese Post) - Portugal Motrac - Belgium Riool Reinigings Service – Netherlands Swiss Post - Switzerland
Other	
Document and asset management: Société Générale – France Telecom: ADP Télécom/Aéroports de Paris – France Healthcare: UCL Saint-Luc – Belgium	

b. People Authentication

Government	Institutions
Belgian Government: Belgian eID card United Nations (UNDP/IAPSO) : Voters registration kits	Belgian Mutual Healthcare Insurances: Social security card (SIS card) Belgian Consumers Association - Test-Aankoop/Test-Achats UCL (Université catholique de Louvain)
Banking	**Insurance**
Bank Card Company Banksys Citibank Diners Club Benelux Isabel	AssurCard DKV
Telecom	
Belgacom/Proximus Orange/Mobistar Sitagro - Volckaert-Soetens: Fooncontact (Mobile Phone top-up services)	

Zetes has a track record for maintaining healthy, long-term relationships. In fact, relationships with customers such as Colruyt, GB (now Carrefour) and DHL go back 15 years and more. To maintain this continuity in relationships, Zetes:

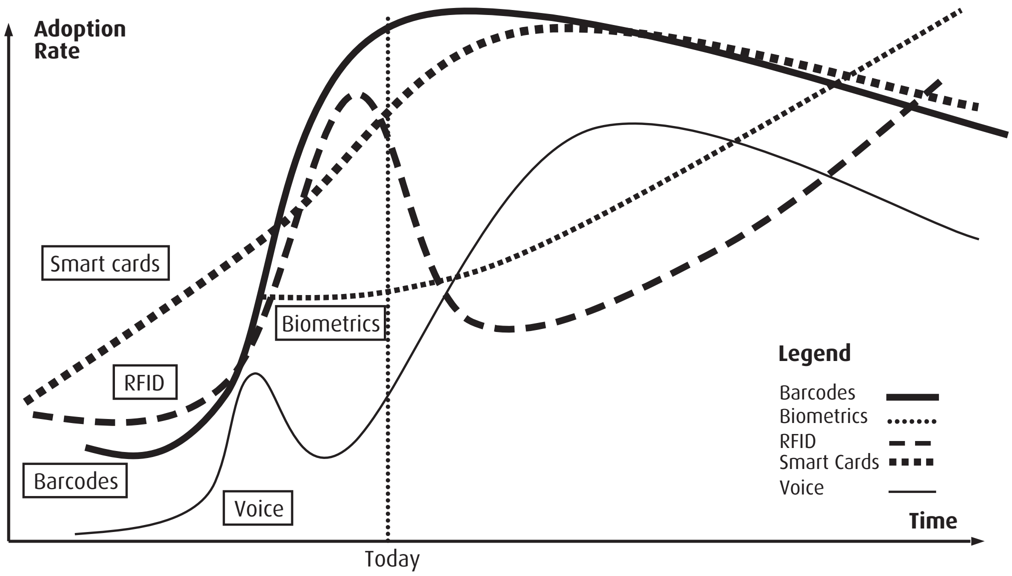
- Stays in touch with customers;
- Maintains continuity of involvement over the lifetime of implementations;
- Follows the evolution of the customer's business;
- Guides the customer through systems evolutions to keep its Auto-ID systems synchronized with its business requirements as its business evolves;
- Introduces the customer to new technologies;
- Provides on-going services such as maintenance and supply of consumables.

6.4. MARKET TRENDS OBSERVED BY ZETES

Zetes does not attempt to influence market technology adoption, nor does it know which technology will be prevalent in the next decade. Rather, it is always anticipating the next technology. As a technology focused organization, Zetes has sufficient breadth to always have individuals investigating new technologies and their potential usefulness to Zetes' customers.

Each of the Auto-ID technologies is in a different phase of market maturity. The following figure represents Zetes' interpretation of each of these technologies' expected market adoption. Consider the RFID trend line. Driven by Wal-Mart's and the US Department of Defense mandates for RFID, the initial steep incline depicts the market's hype for this technology. The subsequent decline depicts the market's realization that a lack of standards and other inhibitors present barriers to suppliers' abilities to meet these mandates. The eventual ascent represents the expected adoption rate as the inhibitors are gradually overcome. Zetes sees these technologies as complementary rather then competitive. For example, Zetes does not expect RFID to replace barcodes immediately or entirely.

Technology adoption rate



Source: Zetes

6.5. AUTO-ID TECHNOLOGIES USED BY ZETES

Over its 20-years in the industry, Zetes has acquired an in-depth knowledge, understanding and mastery of a broad range of Auto-ID technologies from barcodes, voice recognition, and radio frequency identification (RFID) to smart cards and biometrics.

6.5.1. Barcodes

Although many proponents of RFID would have people believe that barcodes will soon be obsolete, Zetes does not concur. RFID has many hurdles to overcome before it can displace barcodes. In fact, Zetes expects barcodes to continue to play an important role in this industry for at least the next decade as barcodes continue to be the technology of choice for low security operations.

Zetes' mastery of barcode technology gives it the foundation to create innovative solutions in both Goods Identification and People Authentication and bring further convergence to these markets. One such convergence, for example, would be to encode a fingerprint into a 2-dimensional barcode in a People Authentication application.

Success profile – Chemical industry and services

This global leader in silicon technology has production centers across Europe. Its production center in Belgium, for example, develops new materials, manufactures, markets and globally supplies mastics, polymers, anti-foams, emulsions, mixes of polymers, and composite products for various industries including automotive, building, paper, cleaning products, oils, hygiene, and textiles.

With initial installation at the customer's production center in Belgium, Zetes deployed a Goods Identification project using barcodes which generates a continuous flow of physical information about running production operations and stocks.

According to the customer, its existing ADC system installed in 1997 had *"reached its limits in terms of functionality and equipments." "In order to avoid any risk of disturbance of production and logistics operations, it has been decided that a new system would be developed."*

The new solution involves the latest generation of Symbol mobile computers running a web browser that interfaces with the customer's central SAP R/3 system in real-time via a WLAN. The WLAN installation is one of the first to implement wireless switch technology to connect a global network of 11 mbps access points. According to the customer, *"Zetes' radio expertise was also crucial in the implementation of the project."*

Zetes brought other added-value to the implementation, such as local optimization and certification of radio systems, and the configuration of the terminal scanner for short distance barcode reading.

According to the customer, *"Given the positive results of this first project, the equipment supply and the system's implementation have been able to start in other Dow Corning European production sites (such as Germany, France, Britain), still in team with Zetes."*

6.5.2. RFID

As RFID inhibitors are gradually overcome, Zetes' extensive experience in supply chain deployments will position the Company well to take advantage of the opportunities of the burgeoning global supply chain RFID market.

Zetes also sees opportunities for RFID in People Authentication applications including:

- Government e-passports;
- Public transportation projects based on RFID cards;
- Employee badges and student ID cards.

Success profile – Industrial Laundry

The customer rents and cleans a range of textile products and uniforms for health services, and for the hotel and catering industry in the Benelux. Many garments are personalized, whereby staff members (doctor's, nurses, etc.) have "their own" clothes. Consequently, one of the laundry company's challenges is to sort the items according to type of garment, size, or hospital department.

Sorting clean uniforms is a fundamental part of textile logistics at the customer, which was already using RF tags to automate this process. However, with their slow scanning speed, high sensitivity to ambient conditions such as metal and radio waves, and their proprietary design, these old-generation tags had limitations.

By carefully analyzing the customer's specific needs, Zetes was able to propose a new generation RFID tag that fully meets the international ISO standards and is *"perfectly resistant to repeated exposure to heat, water and detergents."*

The main challenge for Zetes was to make the two different tag systems work together without any interference. According to the customer, *"The interfacing of the new system with our sorting unit went off without a hitch. By seamlessly blending the new antennas with the old ones, Zetes proved once again that technical know how is certainly one of its trump cards!"*

The customer was able to attain all its objectives before the set deadline. "As these tags can be scanned at a faster speed, we can step up the throughput of our sorting unit and thus increase our capacity." Processing costs drop and mistakes, resulting from the repetitive nature of the job, are avoided. Customer service is enhanced. And, by opting for an open-system, the laundry company is no longer tied to one single supplier for RFID tag readers.

According to the customer, *"once again, they (Zetes) proved to be completely trustworthy, thanks to their extensive know how in the field of logistics, their in-depth knowledge of the RFID technology, and… their strong presence in the Benelux countries. Moreover, we were looking for a partner that could guarantee a flawless integration of the different systems."*

6.5.3. Voice recognition

Zetes sees many opportunities for voice recognition solutions, especially in warehouse picking applications, since voice recognition brings both significant productivity improvement and data accuracy improvement.

Success profile – Logistics

One of the largest pan-European 4PL [9] operator distributes for one of its clients three product groups through its distribution centre near Antwerp, Belgium:

- Snack food products
- Petcare products
- Main Meal products

The Belgian entity of the logistics operator was looking for a solution to optimize order picking in one of its logistics centers and wanted to carry out a test with voice technology to see what advantages it could obtain from this technology. The distribution centre near Antwerp was chosen as its test site for the distribution of these three types of food products: *"The test case could not have been better: a large number of products, large numbers of orders, large numbers of order lines per order, specific receiver instructions, etc..."*

Regarding the choice of supplier, the logistics operator evaluated potential partners according to their: ability to support further roll-out, support capabilities, proven track record, commercial proposition, commitment, European presence, etc. and selected Zetes.

After 4 months, the tests were concluded and numerical data from the logistics operator showed that the results were more than convincing. *"We can definitely confirm that both quality and productivity improved considerably during the entire testing period."*

Given the positive results of the trial, the voice operated system has been introduced into the rest of the site and subsequently interfaced with the customer's WMS.

Although only order picking was considered during the test period, the customer is now evaluating, with Zetes, other operations in the warehouse where voice technology can bring improvements and savings, such as replenishment, storing, stock-taking and real time monitoring of stocks, and quality control.

6.5.4. Smart cards

Zetes finds smart card/chip-based secure documents the more suitable technology for secure People Authentication applications. Zetes sees great opportunity for this technology for such applications as National ID cards, e-passports, e-driver's licenses, e-health cards, biometric registration, and voter's cards.

Success profile – Belgian electronic identity cards

In 1983, the Belgian government established a central National Register at the federal level to record information about every citizen.

Then, in 2002, to give Belgium a lead in e-government services for Belgian citizens and companies, the Belgian government awarded Zetes the contract of prime contractor to supply every Belgian citizen with an electronic identity (eID) card. Belgium's central register is the critical foundation that makes eID possible.

[9] *Fourth Party Logistics (4PL) is the business in which a 4PL operator takes full charge of another corporation's logistics.*

The project was divided into two parts. The first part concerned the preparation of the infrastructure to accommodate the eID cards to be introduced in the second part. The contract gave Zetes responsibility for this second part:

- Production, personalization, and delivery of eID cards to all Belgians over 12 years of age;
- Specification and implementation of the chip applet securing the citizen identity data on the chip and its security functions using security codes;
- Production of specifications and software tools needed for citizens and businesses to use this new eID card;
- Overall coordination of the whole project, including the infrastructure part.

The card itself can be considered as having two dimensions: one dimension being the physical aspect wherein the card should be seen as a traditional ID card with high security; and the other totally new dimension being the electronic capabilities that an on-board chip brings to the owner of the eID card.

The physical elements. The card has the format of a bank card and is based on a very secure material called polycarbonate allowing Zetes to personalize the card with the citizen's data, using laser engraving techniques.

The electronic elements. The real novelty is the inclusion of a chip in the card, which can be compared to a full-blown Personal Computer allowing the storage of data and applications (JavaCard™). The chip contains:

- Files containing citizen ID information, citizen address, citizen photograph, and government certificates to verify the integrity and authenticity of the citizen related files;
- An authentication key pair;
- A digital signature key pair.

These electronic elements allow three types of use of the eID card:

- Data capture — for any circumstance where citizens want to "show" their ID;
- Authentication — citizens over the age of twelve can authenticate themselves electronically using a government issued card;
- Digital signature — citizens can sign e-mails, documents, and forms in Word, Acrobat, etc. with the same legal value as their handwritten signature.

Citizens' perceived value of the eID card will grow as they experience the benefits derived from the applications available to card holders. Application examples include:

- On-line income tax declaration;
- Electronic registered letter application;
- On-line banking based on eID authentication;
- On-line car license plate request;
- On-line request of birth certificates and other documents through city website;
- Physical building access.

In 2005, the chairman of Microsoft, Bill Gates, announced that Microsoft will integrate the Belgian eID card into MSN Messenger instant-messaging service and will examine how to integrate the card into other MS Windows technologies.

The goal is for every Belgian citizen to have an eID card by 2009. Zetes is one of only a handful of organizations worldwide with the experience of a successful national eID card program. Its success and acquired competences in this market position it to further prosper in this market.

6.5.5. Biometrics

Zetes sees great opportunities for its People Authentication solutions for enrolment and almost any secure document project requested by a federal government. Zetes' competences as a value-add, high-touch integrator capable of integrating biometrics and smart card technology, for example, give the Company a strong position in this market.

Success profile – United Nations – voter registration project in the Congo

Zetes is currently involved in a deployment in the Congo of a large number of mobile enrolment kits that are used to register voters and immediately produce voter's cards. The primary objective of the system is to minimize voting fraud in the host country.

Zetes' innovative enrolment kits are completely self-contained systems that include everything necessary for stand-alone enrolments, even in remote locations without power. The registration, verification, and issuing process can all be done on the same workstation. An aluminum case, which can also serve as the enrolment desk, contains the components of the kit:

- Notebook computer;
- Printer that can print both the secured voters cards and registration reports;
- Fingerprint reader;
- Camera;
- Sophisticated battery management system and external generator;
- Consumables (cards, ink, CD).

The enrolment application, developed by Zetes, registers voters by collecting unique data about the individual registering to vote:

- Administrative information;
- Biometric fingerprint data;
- Photograph.

The application produces a secure voter card immediately as an output of the enrolment. The information collected about the registered voter is encrypted on the hard disk of the laptop for later transfer, via offline or online communications, to a centralization center.

The enrolment kit is highly modular for easy adaptation to suit any environment. Its communications are particularly flexible. For example, since highly personal information is being communicated, the data must be protected as much as possible. This means that data stored on the local machine is encrypted. If online communications are used, the transfer of enrolment data between the remote systems and the central server must be protected through a mutual authentication scheme that can establish a basis of trust between the different system components. Zetes' system is capable of using advanced security measures to ensure both the confidentiality and the integrity of the captured data. However, the implementation of a reliable security strategy largely depends upon the environment in which the system operates.

6.5.6. Mobile computers

As indicated by the growth drivers, a persistent demand continues for enterprise mobility in traditional mobile computing markets — an established, mature business and major competence for Zetes. As new Auto-ID technologies such as RFID, voice recognition, and multi-mode radios with combined support for PAN *(see "Business glossary")*, WLAN, and WWAN motivate enterprises to accelerate replacement cycles of existing mobile computers, Zetes' expertise in enterprise mobility positions the Company well to capitalize on this expected trend.

Success profile – Absalon

As a dry-goods wholesaler, Absalon has been supplying retail stores in Belgium and Luxembourg for over a century. Over the years, Absalon has updated its logistics management several times to keep a competitive advantage.

Since the 1990's, Absalon has positioned itself as distributor, logistics coordinator, and merchandiser of a full range of products.

To handle the increasing demands of broad distribution, Absalon acquired, in 2000, an ERP system to update its information systems and manage all the functions of a logistics and distribution company.

The Company's most recent advance has been to provide its sales representatives with fully automated, on-site, electronic sales ordering capability. Absalon selected Zetes to provide it with a solution. The choice of Zetes as provider and partner was motivated by Zetes' size, its soundness, and its dependability as compared to smaller companies with more recent entry into the market.

Zetes selected a terminal that provides a wireless bluetooth connection to sales representatives' GSM/GPRS telephones. This gives the sales representatives remote access to Absalon's central databases, applications, and ERP system for order processing and EDI (electronic data interchange) order confirmation to the point of sale or to a customer's central location.

On top of this infrastructure, Zetes also developed a custom-made and highly sophisticated scheduling application. Another new application allows the display of messages on the terminal, according to specific customer criteria, to advise the sales representative of any items to be taken back or of any new products to be promoted.

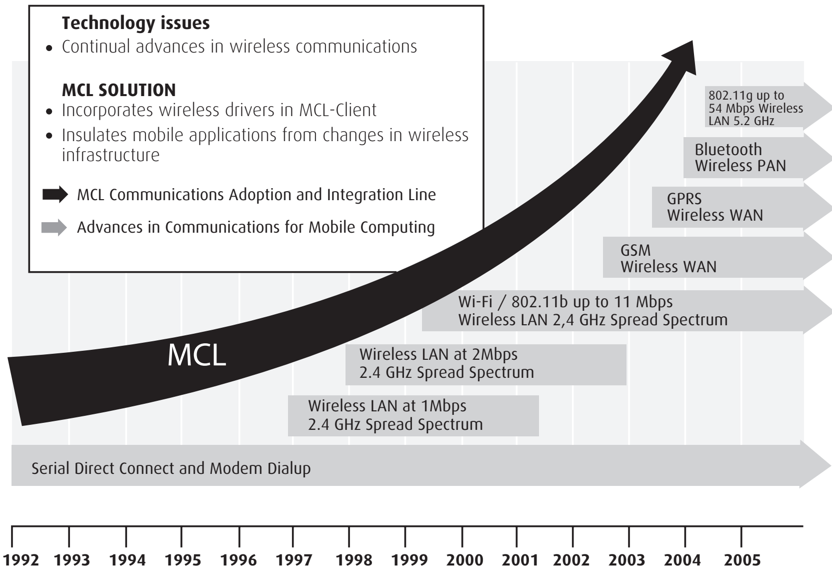
The solution provided by Zetes fully satisfied Absalon's expectations with optimal use of sales representatives' time in the stores, powerful control and reporting of their activities, as well as quick and easy integration of new products into Absalon's product lines. Absalon is confident that the solution provided by Zetes gives them a strong advantage over its competitors.

6.5.7. Communications

Whether for a Goods Identification application or a People Authentication application, Zetes' solutions include a communications infrastructure. A physical infrastructure of wired or wireless networks connects mobile computers, printers, scanners, readers, and other peripherals. Communications protocols running on the physical infrastructure handle the data communications. If necessary, encryption and security methods provide secure transaction handling.

6.5.7.1 Wireless communications

Zetes' solutions have followed the evolution of communications technology from batch systems 20 years ago, to narrow-band radio data communications, to proprietary 900 MHz spread spectrum wireless networks, to WiFi WLAN, to GSM and GPRS WWAN and most recently to bluetooth PAN. As shown below, in its MCL-Collection alone (see section 6.5.8.1), Zetes demonstrates how it keeps current with communications technology adoption:



MCL Technologies continuity timeline for adoption of communications mediums for mobile computing

See section 6.5.1 “Success profile – Chemical Industry and Services” for an example of a WLAN implementation.
See section 6.5.6 “Success profile – Absalon” for an example of a bluetooth and WWAN implementation.

6.5.7.2 PKI (Public Key Infrastructure)

PKI is one emerging technology in which Zetes has a proven competence as an integrator. According to Zetes, PKI is: “A system that enables users of a public network to exchange data securely and privately through the use of a public and private cryptographic key pair that is obtained and shared through a trusted authority.” [10]

As demonstrated in the Belgian eID card project (see section 6.5.4), PKI serves three primary purposes: authentication, integrity, and confidentiality. Authentication assures that individuals are who they claim to be. Integrity assures that transmitted data is not altered during transmission. Confidentiality assures that only the intended recipient can read the transmitted data or message.

In addition to public use over public networks, PKI is of great interest for closed user groups that want to share confidential data. Examples of this include notaries sharing legal contracts and doctors in hospitals sharing confidential information about a patient. For example, a doctor might send a picture of a patient condition and ask for advice from a colleague. PKI assures a totally secure send and return and protection of patient confidentiality.

6.5.7.3 Success profile – secure communication for dematerialized pre-paid goods

One recent Zetes innovation is to dematerialize GSM scratch cards (5/20/50€) that people buy in news stands to top up calling credits on GSM phones. This is very popular with youths who can buy phone credits when they need them, instead of receiving a monthly invoice from a GSM service provider.

The GSM scratch cards are like lottery scratch cards. When a person removes (scratches away) the seal on the card, it reveals a code number. When the person enters that code on the mobile phone it will “top up” with the number of phone credits bought.

[10] Source: State of Arkansas – Office of the ECIO

However, distributing these cards has a high logistics cost and burden. Zetes replaced them with “virtual scratch cards” which are uploaded from a central server to a merchant’s terminal. When the merchant sells a “virtual scratch card”, the terminal prints a ticket with the top up code and removes the ”scratch card“ from memory. The terminals maintain a steady stock of ”scratch cards“ downloaded every night from the central server which is in contact with various telecom providers that supply the scratch card codes in a secured, electronic form.

Zetes is the innovator of this solution and provides:

- Software for the central server and database to manage the “virtual scratch cards” from various GSM service providers;
- Merchants’ smart card terminals with a Zetes custom designed application;
- Software on the merchant’s terminals;
- Smart cards for the merchant and staff to operate the terminals;
- Secure electronic transactions using cryptography;
- Service.

In this case, Zetes has applied a People Authentication solution to the Goods Identification market. This demonstrates very well the convergences Zetes sees between the two markets and the benefit their competences in both markets bring to creating innovative solutions.

6.5.8. Integration

Integration involves the assembly and interface of the various components that constitute a system going from mobile computers, mobile applications, wireless LANs, and enterprise resource planning systems for Goods Identification applications to fingerprint scanners for People Authentication applications and public service access.

Zetes integrates and innovates complete solutions combining identification technologies, identification products, and communications infrastructures. It interfaces and creates interoperability between the components of a system.

One of the tools Zetes uses to create these completely integrated solutions, for Goods Identification applications, is its own MCL-Collection.

6.5.8.1 MCL-Collection

One of Zetes’ sustained innovations is the creation, development, and global marketing of its MCL-Collection software suite.

In 1992, Zetes recognized that most Auto-ID integration projects shared many common requirements. In order to be more efficient and improve overall implementation quality, Zetes packaged frequently needed routines and created an “Auto-ID” application programming language to incorporate these robust routines regularly in custom application development efforts. Zetes subsequently enhanced the development environment to provide a graphical design interface, and expanded the capabilities to include communications servers and “bridges” for integration into enterprise applications and databases. The completely integrated suite of software components shortened Zetes’ sales, integration, and deployment cycles considerably giving the Company a competitive advantage.

In 1998, the Company entered an OEM agreement with Symbol Technologies, the industry leading mobile computer manufacturer. Following Symbol’s endorsement, other manufacturers requested to OEM the MCL-Collection. In 2002, the Company signed the first of several additional OEM agreements with other mobile computer manufacturers. It is also OEM’d by Datamax, an Auto-ID barcode and RFID label printer manufacturer. The embedded MCL software makes the printers intelligent.

Today, MCL-Collection has evolved into a high-productivity software development tool for mobile workforce application development, deployment, and management. It is an enterprise-ready, standards-based software suite that seamlessly integrates the latest technologies with mobile computer, multi-manufacturer, cross-platform compatibility. Through the integration of mobile computing, wireless infrastructures, and data capture technologies like barcode scanners, radio frequency identification, and voice recognition, MCL-Collection helps organizations deploy mission critical and on-demand multimodal applications to improve workforce productivity, reduce costs, and achieve competitive advantage. Since 1992, MCL-Collection has been implemented in thousands of locations around the world by large and small organizations with sectors of activities as varied as retail, banking, healthcare, government, transportation and logistics, warehousing, field service, and manufacturing.

The latest enhancement to MCL-Collection includes the integration of voice recognition and voice synthesis capability allowing developers to create mobile worker applications with voice input and output. These research and development efforts have given the Company an in-depth competence in voice recognition.

6.6. ZETES' MAIN SUPPLIER ALLIANCES

Zetes has a complete offering of products and services backed by strong partnerships with industry leaders. Zetes' corporate strategy (see section 6.3.4) indicates the Company's intent to integrate only "best-of-breed" products. In alignment with this strategy, as shown below, Zetes has formed a number of alliances and partnerships to further this objective.

Partner	Partner offerings of interest to Zetes
Advanced Computer Systems	Connected smart card readers
Axalto	Smart card chips
Cisco Systems	Access points and wireless network routers
Datalogic	Barcode scanners, mobile computers
Datamax	Barcode printers
Image (Markpoint)	Heavy duty printers
Intermec Technologies	Barcode scanners, mobile computers, WLAN
Microsoft	eID client applications
NEC	Fingerprint analysis algorithms & Automated Fingerprint Identification System (AFIS) technology
SAMSys	RFID reader modules
SAP	ERP Software
Scansource	Auto-ID equipment
Sun Microsystems	eID middleware (see "Glossary") integration
Symbol Technologies	Barcode scanners, mobile computers, WLAN
Vocollect	Wearable computers for voice-directed work™
Xiring	Mobile smart card terminals
Zebra	Barcode printers

The strength of these partnerships and their importance and value to Zetes, is illustrated in the confidence these partners show the Company when they share information about future technologies and product roadmaps, and reveal strategic information to Zetes. These partnerships give the Company early knowledge of and access to new technologies. Furthermore, Zetes is very frequently invited to participate in beta programs. The Company has capitalized on this to develop competences in these new technologies and to be positioned to integrate them into customer solutions as soon as the technologies are released to the market. The Company believes that these relationships give Zetes a competitive advantage over large systems houses that are not specialized in these technologies and markets, and that, therefore, do not have these special relationships or the implied competences.

6.7. COMPETITION

6.7.1. Positioning

Zetes is a system integrator in the Auto-ID industry. Its market knowledge, technology focus, integration services leadership, and its broad geographical coverage and reach, combine to give the company a unique and advantageous position.

Since 1985, Zetes has continuously invested to reinforce its offerings in terms of supported technologies and value-added services, and to grow the company in terms of geographical and market coverage. Over the years, Zetes has continually developed its position in the Goods Identification market and is now a recognized leader in this domain where, unlike many of its competitors that operate mainly as local or mono-technology hardware resellers, Zetes has positioned itself as a true multi-technology, pan-European system integrator. In recent years, the Company has also strategically positioned itself with the objective to become a leader in the People Authentication market.

6.7.2. Zetes key differentiators

- Multi-skilled professional services
- Market knowledge
- Technology expertise
- Value-added services; complete solutions provider
- Customer base
- Geographical coverage—multi-cultural
- Global reach

6.7.3. Main competitors

It is not possible to give market shares for Zetes and its competitors because of the fragmented marketplace and the lack of reliable data, since the competitors are mainly private companies and do not publish financial information. Nevertheless, it can be stated that, on a worldwide scale, there are few companies matching Zetes' positioning in both the Goods Identification and People Authentication markets and offering the same range of competences, broad geographical coverage, and international reach.

Although it enjoys a unique position, Zetes does encounter competition in both Goods Identification and People Authentication. Its competition comes primarily from system integrators and, on some limited occasions, from manufacturers active in the Auto-ID industry. Since Zetes' activities are focused on Europe and EMEA, this competitive discussion is limited to Europe as well.

6.7.4. Goods Identification

6.7.4.1 System integrators

Zetes encounters four types of competitors in this realm:

- Players specializing in Goods Identification solutions.
- Small and medium sized local players that target limited sub-market segments.
- Small and medium sized players active in promoting just one technology.
- Companies active in mainstream IT systems integration or IT consulting.

Players with direct presence in several European countries and that create Goods Identification solutions employing a wide range of technologies are in the best position to meet Zetes in a competitive environment. Zetes is aware of only one company, Peak Technologies Europe, that matches this profile.

Small and medium sized local players targeting limited sub-market segments face difficulties in trying to implement projects for multi-national accounts.

Small and medium sized players are either specialized in one hardware (printers, mobile computers, forklift terminals,...) or active in promoting just one technology (e.g. voice recognition). Therefore they are limited in the projects they can undertake as one hardware or technology is rarely sufficient anymore to answer all of an end-user's needs. In fact, to maintain their own competitive advantage in a rapidly changing world, end-users need their system integrators to have a mastery of more than one hardware and technology.

Companies active in mainstream IT systems integration or IT consulting usually approach the Goods Identification market without special regard for the specific qualities, characteristics, attributes, or technologies of this market. Their lack of specifics in Goods Identification solutions is a barrier to their success in this market. Of course, with a sufficient level of investment and experience, these companies could, in the future, increase their expertise and consequently their market penetration. Fortunately, for Zetes, its markets are often perceived as niche markets to these large IT powerhouses, like IBM and EDS. In fact, these players, with their worldwide presence, are frequently selected for global mega-projects, which often involve Goods Identification sub-projects that are outsourced to companies like Zetes that specialize in these solutions. As a result, Zetes is very well positioned to have a synergistic relationship rather than a competitive relationship with these mainstream IT players.

6.7.4.2 Manufacturers

Several years ago, in an attempt to emulate the IBM model, some of the main Auto-ID industry manufacturers made plays to become global solutions providers and, consequently, competed against Zetes. However, in the past couple of years, most have retrenched and refocused on their core business as manufacturers. As a result, they have implemented "clean" go-to-market strategies, and certainly, in Europe, no longer act as system integrators or compete against Zetes. However, some of the smaller horizontal manufacturers are still going direct.

In some vertical sub-markets such as warehousing, Zetes is experiencing some competition from smaller manufacturers whose products are not in Zetes' offering. Some of these companies have a mixed business model, which includes going directly to end-users.

6.7.5. People Authentication

The People Authentication competitive landscape varies from market segment to market segment. In the two markets in which Zetes is currently focused, Government and Institutions, the following describes the competitive environment.

In these markets, Zetes typically encounters consortiums, not individual companies. These consortiums are frequently comprised of secured card printing companies and mainstream IT system integrators. Sometimes they also include local players with local influence.

For smaller sized projects, Zetes also encounters specialized companies such as Viisage, Digimarc and Identix.

Secured card printing companies, such as Gieseke Devriendt and Oberthur, are entering the eID market segment from the fiduciary world where they print stocks, bonds, checks, and bills. These players have no knowledge of the Auto-ID industry, nor do they have any systems integration experience. Consequently, these companies are forming consortiums with mainstream IT system integrators, like IBM and EDS, to be able to provide complete eID solutions and compete in this market.

By contrast, as in Goods Identification, Zetes provides complete turnkey solutions in People Authentication.

In addition, some leading players in People Authentication today are traditional low-tech companies that create paper documents with affixed photos of individuals. A significant paradigm shift is occurring in this market. If these players are going to remain competitive in this market, they need to move from the analog world to the digital, electronic world.

6.7.6. *Conclusion*

Although it enjoys a unique, competitively advantageous position today, Zetes does not intend to underestimate the competition as potential players realize the growth outlook of Zetes' markets — and of the People Authentication market in particular. Zetes is very aware that companies with more resources than it could make a move to establish themselves as major players in these markets.

Furthermore, it is aware that its competitors could develop solutions that are less costly or more effective than Zetes', and that customers could prefer solutions, technologies or products offered by its competitors.

The challenge Zetes is facing, in the Goods Identification, is to become more global whilst remaining perceived, at the same time, local enough to be able to be close to local market specificities.

6.8. HUMAN RESOURCES

The number of employees (full time equivalent) employed by Zetes at the end of the last three business years was as follows:

Date	Number of employees
December 2002	429
December 2003	475
December 2004	458
June 2005 (1)	440
October 2005	440

(1) Excluding the distribution activity, see also section 7.3.4.2.

The costs for personnel were equal to €24,154,271 for Zetes in 2004, including pension costs.

As of December 2004, Zetes employed 431 people (in FTE and excluding the distribution activity) who are distributed across 8 European countries. Zetes was initially established in Belgium. Consequently, to this day, at roughly 47%, the majority of its associates are employed in Belgium.

The following is a summary of the distribution of Zetes' employees per segment:

Date	Goods Identification	People Authentification	Distribution	Corporate	Total
Dec-04	351	69	27	11	458
Jun-05	349	79	0	12	440

The following is a summary of the distribution of Zetes' employees throughout Europe:

Country	Number of FTE [11]
Belgium	201.3
France	21.0
Germany	39.0
Ireland	26.0
The Netherlands	44.4
Portugal	58.0
Spain	22.0
UK	19.0
Total	430.7

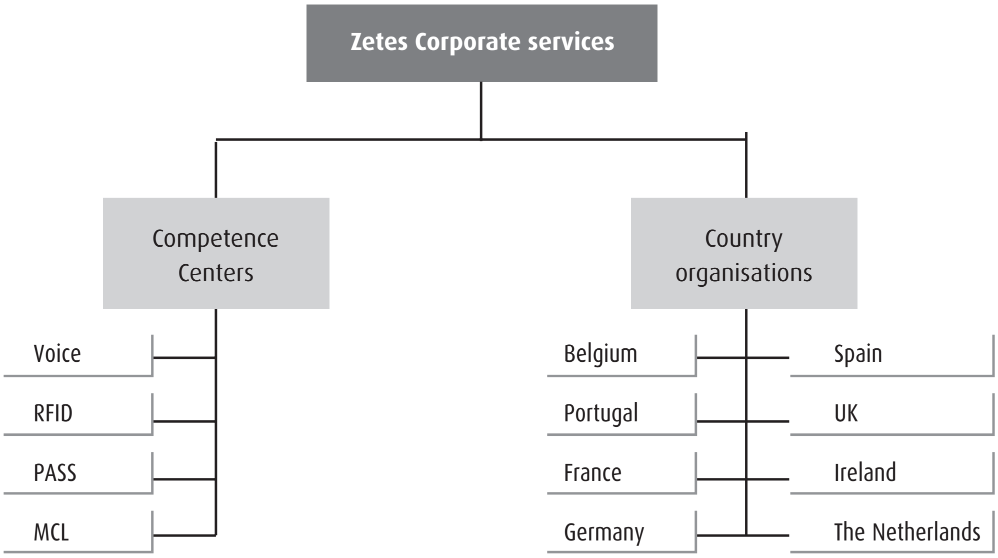
[11] *Note: The employee figures exclude the distribution activity (sold in April 05), which accounted for 27 people at the end of 2004.*

The following is a summary of the profile of Zetes' employees:

Employee Profile	Number of FTE[11]
Sales and Pre-sales	106.0
Professional services	117.6
Production	33.0
Customer services	88.5
Overhead	85.7
Total	430.7

Note: Production only applies to Zetes Cards for smart card (secure document) production. These individuals operate the document production line, calibrate and fine-tune equipment (such as lasers), handle the IT functions associated with the personalization of documents, assure document quality, and handle the logistics of secure document delivery.

Company structure



Zetes' corporate services are responsible for the strategy, support for operations and growth activities, the financing, and the financial control of the Company.

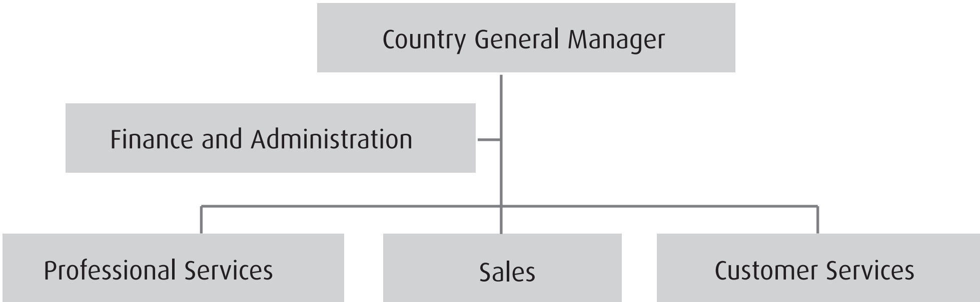
The competence centers are teams that specialize in new technologies. Zetes currently has four such teams:
- Zetes Voice;
- Zetes RFID;
- Zetes Personal Authentication and Security Services (PASS);
- MCL.

The first three teams are a resource for the Country Organizations. The competence centers concentrate expertise in new technologies. They research new technologies and develop them for use in Zetes' solutions for use throughout the entire Company. They assist in pre-sales consulting and project implementations employing new technologies. They are centralized teams with transnational responsibilities.

For a description of MCL, see section 6.5.8.1.

[11] *Note: The employee figures exclude the distribution activity (sold in April 05), which accounted for 27 people at the end of 2004.*

Country Organization Structure Chart



The Country Organizations are decentralized profit centers. They are responsible for business development in their respective countries.

The Country Organizations are decentralized to be close to the markets they serve. However, their decentralization does not translate to autonomous operation. The Country Organizations are all structured identically and report to Zetes corporate. Each Country Organization is structured with a General Manager, Sales, Professional Services, Customer Services, and administrative overhead.

The Sales associates are those individuals who are out in the market, building the business. They are active in, and often specialized in, Zetes' target markets such as manufacturing, warehousing, transport, government, and banking.

Regarding Professional Services, these employees are predominantly developers, senior developers, pre-sales associates, and project managers. These are the individuals who implement Zetes' solutions.

Customer Service is a technical team responsible for the maintenance and repair of equipment installed at customer sites.

Finance and administration are overhead employees who handle the various management functions of the Company both at the centralized group level and at the individual country level.

Please find hereafter an overview of the CVs of the above-mentioned Managers:

Corporate Services

Mr Alex Driesen
Function: Corporate Development
Nationality: Belgian
Age: 38 years
Education: Executive MBA, FBS
Master in Scientific Computer Applications, PUC
Master in Industrial Sciences, IHAM
Years with Zetes: 14 years
Former Employer: Barco Graphics

Mr Benoît Heins
Function: Investors Relation
Nationality: Belgian
Age: 42 years
Education: Graduated in Commercial Engineering from the Catholic University of Louvain (B)
Years with Zetes: 5 years
Former Employer: Vice adviser Belgian at Banking and Finance Commission

Mr Eric Vandermeersch
Function Cards Manufacturing Facility Manager
Nationality: Belgian
Age: 37 years
Education: Graduated in Commercial Engineering from the Catholic University of Louvain (B)
Years with Zetes: 2 years and 9 months
Former Employer: Sales Director of ACG in Singapore (SE Asia)

Mr Marcel Kars
Function: Manager Zetes Voice & RFID Competence Centers
Nationality: Dutch
Age: 38 years
Education: Graduated in Business Logistics from the National Transport Academy in Venlo (NL)
Years with Zetes: 3.5 years
Former Employer: Sales manager at SyVox Europe

Mr Ronny Depoortere
Function: Manager Zetes PASS Competence Center
Nationality: Belgian
Age: 37 years
Education: Master in Business Administration - LEUVEN (B)
Civil Engineer Electronics - LEUVEN (B)
Years with Zetes: 3 years as contractor
Former Employer: Vice-President & General Manager Utimaco Safeware

Mr Jean-Luc Forster
Function: R&D Manager MCL Technologies
Nationality: French
Age: 44 years
Education: Graduated in Electronic Engineering (ECAM) Belgium
Years with Zetes: 13 years
Former Employer: Electronic Engineer / Philips Electronic

Country Managers

Belgium and the Netherlands
Mr Carlo D'Agnolo
Nationality: Dutch
Age: 52 years
Education: Graduated in Industrial Engineering and Management Science,
Eindhoven University of Technology (Nl)
Years with Zetes: 2 years
Former Employer: Managing Director Enschede/Sdu

Germany
Mr Rainer Skau
Nationality: German
Age: 41 years
Education: Electrical engineer, the University of applied sciences of Krefeld, Germany
Years with Zetes: 11 years
Former Employer: Theimeg GmbH (today Cattron-Theimeg GmbH in Mönchengladbach), sales engineer

Ireland and United Kingdom
Mr Peter Beacham
Nationality: British
Age: 50 years
Years with Zetes: 7 years
Former Employer: ICS Identcode Systems - Sales Manager

Mr Eoin O'Shea
Nationality: Irish
Age: 38 years
Education: Member of Institute of Chartered Accountants Ireland
Degree in Public Administration University of Limerick
Years with Zetes: 3 years
Former Employer: Group Financial Manager Orygen Ireland Ltd

Portugal
Mr Pascal Fevry
Nationality: Belgian
Age: 38 years
Education: Business Administration with Technical Background Ingenieur Commercial (ULB)
Years with Zetes: 5 years
Former Employer: Dexia (formely Banque Paribas Belgique) Senior Account Manager

Mr Tiago Conceição
Nationality: Portugese
Age: 35 years
Education: IT Engineer - Cocite
Years with Zetes: 9 years
Former Employer: DGITA - Software Analyst

Spain
Mr Juan José Martínez
Nationality: Spanish
Age: 43 years
Education: COU. Ecole Marianista Amorós
Years with Zetes: 5 years
Former Employer: General Manager Radiocom Multicomunicaciones

6.9. LEGAL PROCEDURES

In the ordinary course of its operations, as of 30 June 2005, Zetes was involved in three proceedings, as plaintiff or as defendant, relating to claims exceeding €100,000 each and which are described below.

Zetes has a provision for litigation amounting to €0.147 million and contingent liabilities which, as of 30 June 2005 amounted to €0.072 million. This provision does not cover claims brought against Zetes for which damages have not been estimated or in relation to which the plaintiff's prospects are considered by Zetes to be too remote.

Zetes is unable to predict the ultimate outcome of the proceedings pending against it, some of which may be unfavorable to Zetes, and may require Zetes to pay damages to the plaintiff(s).

The principal civil proceedings to which Zetes is a party are as follows (by categories of similar proceedings):

Against Zetes:

- Three labor law procedures have been started by former employees of Zetes;
- Zetes is faced with a claim of arrears of payment related to the procurement by Computer Compta Systems SA of an integrated IT-system for an amount of approximately €60,000 (without interest). Zetes brought a counterclaim during the proceedings.

By Zetes:

- Zetes entered an appeal against a decision of the court of commerce of Brussels by which Zetes was ordered to pay an amount of approximately €100,000 to Belgacom SA for arrears of payment related to development by Belgacom SA and the distribution by Zetes as subcontractor of SIS-card readers;
- Zetes entered an appeal against a decision of the court of first instance of Brussels by which Zetes was ordered to cease Voxware NV's copyrights infringements on penalty of a fine of €100,000 per breach. Zetes is abiding by the order of court of first instance;
- Zetes entered into legal proceeding against two minority shareholders of IND, a German subsidiary of Zetes Group, to obtain transfer of the shares not yet held by Zetes in this company. These shares were purchased and paid by Zetes for an amount of approximately €1.2 million, in the framework of the exercise by Zetes of a call option relating to 14% of the share capital of this company. These two minority shareholders refuse to transfer these shares although a court ordered them to do so on 12 September 2005. The period during which an appeal could be filed against this judgment has expired. After verification, it appears that no appeal has been filed during this period. However, the Company has not yet received a written confirmation thereof.

7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussions and analysis should be read in conjunction with (i) the section entitled "Selected key financials" and (ii) the Company's audited consolidated financial statements, including the notes to those financial statements, included in this Prospectus. Certain statements in this section are "forward-looking" statements and should be read in conjunction with the disclaimer "Forward-Looking information". In 2004, for the first time, the Company prepared its consolidated financial statements in accordance with IFRS. The 2003 accounts, originally prepared in accordance with Belgian GAAP, have been restated and audited for comparison purposes.

A commented comparison 2002 and 2003 Belgian GAAP is included in section 7.6.

The first half-year 2005 condensed financial statements are also attached, including a comparison as required by IFRS.

The statutory auditor made a limited review of the condensed interim financial statements.

7.1. OVERVIEW

Zetes is a leading pan-European system integrator deploying value-added solutions for Goods Identification and People Authentication applications in the Automatic Identification (Auto-ID) industry. Established in 1984 with headquarters in Belgium, the Company has grown both organically and through acquisition, and today has subsidiaries in 8 European countries (Belgium, France, Germany, Ireland, The Netherlands, Portugal, Spain, and the United Kingdom) and employs 440 employees. The Company generated revenues of €100.8 million in 2004 and €60.4 million in the first half of 2005.

Offering full system integration services to create complete solutions, the Company concentrates its efforts on two main business segments:

- *Goods Identification:* Combining its mastery of Auto-ID identification technologies with its experience in communications and integration competence, Zetes designs, develops, and delivers complete Goods Identification solutions for such applications as manufacturing work-in-process, warehouse picking, retail shelf price management, maintenance work order planning, transport freight management, and mobile sales proof of delivery.
- *People Authentication:* Using smart card technology, biometrics, encryption, secure communications and application software, Zetes creates complete People Authentication solutions involving the creation of secure documents such as national identity cards, health cards, voter identity cards, campus ID cards, e-wallets, and pre-paid cards for governments, institutions, financial services, insurance, public transport, and telecoms. Zetes is focused on government and institution market segments, but is also active in other market segments where high-touch value-added solutions are required.

7.2. FACTORS AFFECTING RESULTS OF OPERATIONS

7.2.1. Major evolutions in Goods Identification

At 78% of its sales in 2004 and 72% at the end of June 2005, Goods Identification continues to be the Company's primary activity. As the Company is a leading pan-European system integrator, global industry trends affect the Company's results of operations. In 2003 and 2004, Zetes saw several of its customers postpone investments, slowing down the growth. This was partly due to an unfavorable IT investment climate and partly due to the uncertainty of adoption of new technologies, in RFID in particular. However, with the general realization that massive adoption of these technologies is premature, customers are now renewing investments in known and reliable technologies. In 2004, Zetes also strengthened its investments in voice recognition technology, which is gaining more and more acceptance due to its maturity and reliability. This trend is continuing to strengthen in 2005, as confirmed by the observed growth in 1H 2005.

7.2.2. Major evolutions in People Authentication

Representing 28% of Zetes sales at the end of June 2005, People Authentication is growing very rapidly as a result of both the strategic investments made previously by the Company and an increasing demand for digital identification of individuals. In 1999, with the acquisition of Cards Encoding Cy, Zetes launched a strategic initiative to add People Authentication to its core Auto-ID activities. Since then, the Company has invested in People Authentication activities by recruiting highly qualified personnel and has gradually seen a growth of activities within this market segment. Zetes' early successes in this market include the implementation of Belgian eID cards and health cards, and voter registration and card issuing kits for the Congo. These large-scale deployments have demonstrated the Company's ability to successfully transfer, into its People Authentication deployments, competences from its 20-year experience involving Goods Identification deployments. Projects in this market can typically be very large compared to projects in the Goods Identification market. As Zetes has been and is still building-up a position in this market, the results of operations have been influenced by the investments made by Zetes in business development to position the Company to win contracts in People Authentication and by the lower pace of implementation imposed by customers on contracts won. For instance, in October 2002, the Company won the contract for the production of Belgian eID cards. The pilot phase involved the production of some cards in 2003 and 2004. However, although the Company anticipated the beginning of the roll-out to be in 2004, in fact it only started in Q1 2005. These delays affected Zetes' 2004 results. The Company's revenues for such a contract (build and operate [1]) are indeed directly linked to the number of cards produced. For 2003 and 2004, the cumulated production of eID cards amounted to 159,000. Linked revenues were about €1 million. Those did not cover the operating costs (machinery and people) exposed to have the plant ready for production. In 2003 and 2004, this led to a loss (EBIT) and affected the cash flow, without affecting significantly the global contract profitability (production postponed). Zetes expects to produce annually 2 million cards from 2H 2005 for a period of 5 years (total contract value in sales: about €65 million for 10 million cards), substantially improving results in People Authentication.

(1) In a "build and operate" contract, the customer appoints the Company to develop the solution and to run the production. The company has to invest in the design and the development of the production capacity. The company is paid by produced card during the lifetime of the project. In some cases, payments in advance are done. The Belgian eID and the Belgian health cards contracts are typical "build and operate" contracts.
In a "build and transfer" contract, the customer buys from the company a complete solution (hardware and software) and the assistance services (mainly training and technical assistance). The ownership is transferred and the customer operates the production itself. In this case, the company's investments are near to zero and the execution of the contract is limited in time. The United Nations' contract is a typical "build and transfer" contract.

7.2.3. Sale of distribution activity

In April 2005, Zetes sold its Goods Identification distribution activity to a US Company. The Goods Identification distribution business within Zetes was exercised by companies trading under the Europdata-Connect (EDC) brand and consisted of selling Auto-ID products (hardware & software) exclusively to resellers (two-tier distribution model) and providing the same resellers with complete value-added services (logistic, sales marketing, configuration and technical support). EDC never sold to end-users.

Distribution (in '000 €)	**2004**	**2003**	**2002[2]**
Sales	13,174	14,450	12,697
EBITDA	358	429	364
Net Debt [1]	1,524	1,315	(248)

(1) Statutory figures
(2) For 2002, the sales and EBITDA are management figures

The sale of this distribution activity will have no operational impact on Zetes' systems integration activities.

Zetes' distribution business model was focused on medium-sized contracts. In order to safeguard the future success of this activity, it needed to grow to a pan-European coverage. This business development would have required significant investments and moreover would have placed Zetes in competition with one of its strategic distribution partners. Rather than make this investment, Zetes decided to sell the distribution activity, preserve its relationship with its strategic partner, and concentrate instead on reinforcing its position as a leading pan-European system integrator. The main effect of this divestment is the decrease in Zetes' indebtedness. This is visible as of 1H 2005 (see section 7.4.4.4). It freed up cash totaling €3.6 million and allowed the "deconsolidation" of €1.5 million of financial debt.

This activity is no longer consolidated in to the accounts of the first half year 2005. Only the after-tax results are integrated into the accounts of the first half year 2005 (post-tax loss of discontinued operations). This amounts to a loss of €0.05 million for the period from 1 January 2005 until the date of termination of the activity.

An overview of this activity from 2002 until 2004 is given in section 7.5.

7.2.4. Acquisitions

Consistent with its strategy of becoming a leading pan-European system integrator, Zetes acquired 6 companies in Goods Identification between 1998 and 2001. As a result, Zetes significantly expanded its footprint from Belgium alone to 8 European countries (Belgium, France, Germany, Ireland, The Netherlands, Portugal, Spain, and the United Kingdom). In line with the Company's vision of convergence of the Goods Identification market and People Authentication market, Zetes acquired Cards Encoding Cy in 1999, as such entering the People Authentication market. In the majority of these acquisitions, the Selling Shareholders were asked to keep a minority stake in the acquired Company for a certain period of time, in order to stimulate the involvement and active participation of the Selling Shareholders in the development and integration of the acquired subsidiary. In most cases, agreements were made to purchase the remaining minority shares at a later stage, at a price typically based on performance. The last minority shares were acquired in 2004 for a total of €2.7 million (maximum). Today, these minority buy-outs are considered to be completed (see 7.4.4.2 and 6.9) and will not require extra funds in the future. The last payment of €1.1 million in favor of the two last German minority shareholders was done in July 2005 (see section 6.9).

Following these acquisitions, Zetes committed time and effort to integrate these companies and build up a professional international group structure. In a limited number of cases, the integration effort also involved restructurings and cost-saving initiatives, temporarily affecting results. At present, Zetes' management considers the integration phase to be completed and is considering new acquisitions to further expand its European footprint (see also section 2.2.3 "Use of proceeds" and section 7.8 "Outlook").

7.2.5. Business cycles and project nature

Firstly, Zetes finds that People Authentication projects are orders of magnitude larger than Goods Identification projects. For example, Zetes is frequently involved in Goods Identification projects with revenues of €1 to €2 million each. By contrast, revenues for People Authentication projects are in the order of €10 million to €100 million each.

Secondly, Zetes has observed that the relative sizes of the projects are reflected in the lifecycles of these implementations. For example the majority of Goods Identification projects are developed and completely installed within the first year of implementation with sustained efforts over the lifetime of the implementation involving maintenance, upgrades, repair, and so on. By contrast, People Authentication projects typically involve longer implementation periods and longer delivery periods. In fact, implementation and pilot phases of 1-2 years and delivery phases that stretch out over a period of five or more years are not uncommon in this market.

Thirdly, Zetes has found that as new technologies are brought to market, organizations make fresh investments to realize the benefits offered by these latest technologies. The result is a repeating cycle of investments. With its focus on nurturing long-term customer relationships, Zetes positions itself to be considered as the solution provider for this on-going, recurring business.

Gross margin on contracts may vary on a case-by-case basis, depending on the nature and the content of the total solution package provided by Zetes. In addition to the typical integration services it delivers, Zetes' solutions usually include hardware components, which typically carry lower margins than services and which, therefore, decrease the overall project gross margin in relative terms, but increase it in absolute terms.

7.3. RESULTS OF OPERATIONS

7.3.1. Overview

Global Profit and Loss (in '000 €)	1H 2005	1H 2004	Change %	2004	2003	Change[3] %
Sales	60,401	48,711	24.0%	100,829	100,105	0.7%
Gross margin [1]	24,014	20,239	18.7%	41,758	40,795	2.4%
Employee costs	(11,530)	(11,690)	-1.4%	(24,154)	(22,992)	5.1%
Other operating charges [1]	(6,503)	(5,819)	11.8%	(11,780)	(11,721)	0.5%
Ebitda	5,981	2,730	119.1%	5,824	6,082	-4.2%
Non cash expenses	(2,114)	(1,800)	17.5%	(4,436)	(5,360)	-17.2%
Restructuring costs	(276)	(121)	129.0%	(252)	97	nr
Ebit	3,590	810	343.5%	1,136	818	38.9%
Other [2]	(62)	(123)	-49.8%	89	(6)	nr
Financial result	(1,592)	(1,528)	4.2%	(2,763)	(1,840)	50.2%
Taxes	(694)	129	nr	473	(267)	nr
Net profit (Group)	1,236	(713)	nr	(1,088)	(1,406)	-22.7%
Net profit (Minority interest)	6	0	nr	24	112	-79.5%

(1) Gross margin higher compared to consolidated accounts due to inter-segment transactions. Other operating charges are higher for the same amount.
(2) In 1H 2005, "Other" includes post-tax loss of discontinued operations (Distribution -€49k).
(3) Change is computed on real (not rounded) figures. This is normally applicable to the different tables included in the Prospectus.

In 2004, the evolution in sales and gross margin was positive compared to 2003: a slight increase in sales in a difficult environment (in IT investments in particular) and a slight increase in gross margin (+2.4%) due to recurring business and the implementation of high value-add projects. Still, sales in 2004 were below the expectations of Zetes' management, who foresaw the Belgian eID card roll-out to start in the beginning of 2004. For external reasons, this roll-out only started at full pace in Q1 2005. In Goods Identification, the entity in the Netherlands recognized a decrease in sales of €6 million, which obscured the positive performance of the other entities in Zetes (see 7.3.2.1).

The increase in employee costs (+5.1%) is essentially a consequence of strengthening the People Authentication business; this is considered as a necessary investment in international business development. The other operating charges were under control (+0.5%), leading to a slightly decreased EBITDA (-4.2%). Non-cash expenses decreased noticeably in 2004 (-17.2%), in goodwill impairment losses in particular. This allowed the generation of a strong increase in EBIT (+38.9%) even after restructuring costs.

In the first half year 2005, sales improved by 24% compared to 1H 2004. If the distribution activity (accounted for €6.8 million in 1H 2004) is excluded, the increase is 44% from one year to the other. This very significant improvement is the result of several years of strategic development. In Goods Identification, Zetes experienced a sustainable growth supported by recurring revenues and adoption of new technologies like voice recognition. In People Authentication, both national and international projects contribute to the revenue.

This strong increase in revenue and gross margin is generating profits thanks to the control of the costs evolution. In the previous years, the Company hired and trained new people and engaged other resources in order to smoothly absorb the expected growth.

7.3.2. *Turnover*

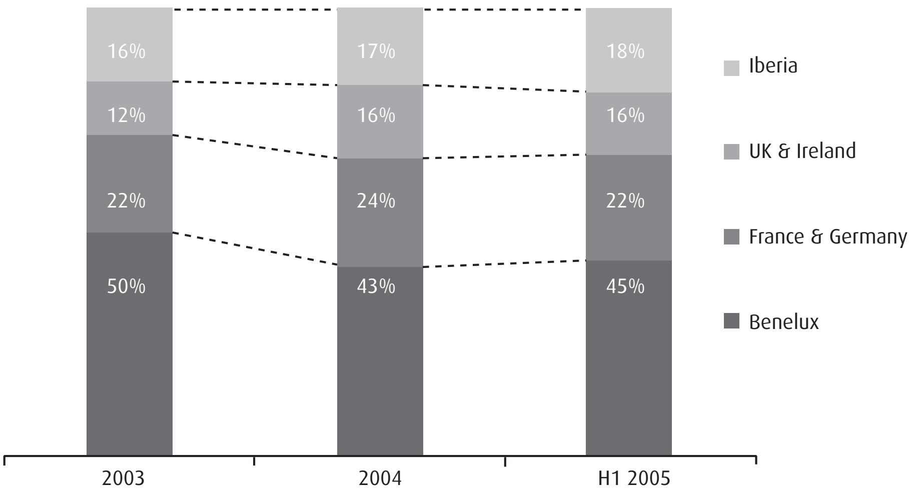
Zetes' consolidated turnover, with slight growth (+0.7%), increased to €100.8 million in 2004 from €100.1 million in 2003. For 2005, the loss of potential revenue resulting from the termination of the distribution activity is, in the first half of 2005, fully compensated for by the growth in revenues in both Goods Identification and People Authentication.

Sales (in '000 €)	1H 2005	1H 2004	Change %	2004	2003	Change %
Goods Identification	43,256	36,741	17.7%	78,366	78,054	0.4%
People Authentication	17,138	5,906	190.2%	10,715	9,301	15.2%
Distribution		6,764	nr	13,174	14,450	-8.8%
Corporate	7	9	nr		6	nr
Cross segment sales (1)		(709)	nr	(1,426)	(1,706)	nr
Total	**60,401**	**48,711**	**24.0%**	**100,829**	**100,105**	**0.7%**

(1) Elimination of the cross segment sales made – i.e. between Goods Identification, People Authentication, and Distribution segments. Elimination is not relevant as of gross margin level and will therefore be excluded.

7.3.2.1 *Goods Identification*

In 2004, the sales broke-down geographically between Benelux (43%), France and Germany (24%), Iberian Peninsula (Iberia) (17%) and finally UK & Ireland (16%). Benelux, the Company's origin, still represented 43% of sales, compared to 50% in 2003. This break-down is confirmed at the end of June 2005 with Benelux (45%), France and Germany (22%), Iberia (18%) and UK & Ireland (16%).



Sales performance in 2004 in the Goods Identification segment was considered as satisfying, especially in a rather unfavorable European economic climate regarding enterprise IT investments. This performance was mainly contributable to the innovative and productive solutions that Zetes proposed to its clients, such as voice recognition implementations. Performance was aided as well by the Company's maintenance services offerings, which reinforced the Company's strategy to cultivate long-term customer relationships. In 2004, recurring business, including repair, maintenance and consumables represented around one fourth of the total Goods Identification revenues, a slight increase compared to 2003. The recurring business in 1H 2005 is in line with 1H 2004 figures.

Each regional entity either maintained or grew (significantly in some cases) their revenue in 2004 compared to 2003 with the exception of the subsidiary in The Netherlands, which experienced a revenue drop of €6.1 million. This decline was due to the subsidiary's implementation of an important "one-time" project roll-out in the retail sector in 2003 and the absence of a similar roll-out in 2004. In order to keep its resources in line with its level of activity, a « cost saving » restructuring was implemented in 2004 in Zetes BV.

In 1H 2005, the growth in sales was around 18% for Goods Identification, which broke-down as +12.3% for Benelux (exclusively in The Netherlands which has regained strong growth spread out across a wide customer base), +16.2% for France and Germany, +21.2% for Iberia and +49.8% for UK & Ireland. The growth of Zetes is supported by the implementation of solutions involving voice technology and the rapid expansion of Zetes' subsidiaries in the large countries where the companies can profit from Zetes' pan-European position. All Zetes companies based in large European countries are growing fast through large customers that value the consistent level of services that Zetes is able to deliver everywhere.

7.3.2.2 People Authentication

In 2004, the People Authentication business line revenues increased by 15% compared to 2003, mainly due to the growth of sales related to the Belgian eID card project. The most important contract executed in 2003 and 2004 was the roll-out of Belgian health registration cards (SIS cards). The Belgian eID card roll-out, initially forecast for H2 2004, for reasons external to the Company, finally started in Q1 2005. Following the infrastructure installation, which was required in the various Belgian municipalities – the majority of which ended in December 2004 – eID production began. The rate of production could vary over the course of time as a function of customer decisions, but the total number of cards to be produced over 5 years remains unchanged at approximately 10 million units.

The Belgian health cards and Belgian eID contracts represent more than 35% but less than 50% of the total People Authentication turnover, in 2004 as in 2003. The revenues associated with these contracts are a function of the number of cards produced, guaranteeing significant recurring revenue in the roll-out phase and in on-going normal renewals (lost/destroyed/new member). Besides these two contracts, the Company used its development and production capacity to produce bank and telco cards. The Company also won and implemented contracts for secured payment systems and dematerialized prepaid phone cards.

During the first half year 2005, the acceleration of production on on-going contracts and the development of international activities have enabled revenue to multiply by 2.9. More than 0.8 million eID cards have been issued and invoiced to the Belgian Government in 6 months. Zetes expects to produce annually 2 million cards from 2H 2005 for a period of 5 years (total contract value in sales: about €65 million). In the same time, Zetes has increased its international business. Among others, Zetes has delivered about 30% of the voter registration project in the Congo (total value of the contract over €30 million). This growth is the fruit of labor of the preceding years. It was managed thanks to the specialists in the areas of cryptography, biometrics, and security hired since 2003.

Zetes also keeps a stable activity in cards production for the bank and telecommunication companies. It also proposes innovative solutions. For instance, Zetes won a contract with the UCL for delivering campus ID cards in 2H 2005 (see section 6.3.2.4b).

7.3.3. Gross Margin

The gross margin is equivalent to the sales minus the cost of sales, including the subcontracting. The relative gross margin is strongly influenced, in Goods Identification in particular, by the size of contracts.

The signings of increasingly larger contracts leads in most cases to weaker gross margin percentages. It constitutes important phases of development for the various entities within Zetes. These contracts permit them to position themselves towards their customers, towards their suppliers and in contrast with their competitors. Management's focus is primarily on the evolution of EBITDA for Goods Identification activities and on EBIT (in absolute terms) for People Authentication activities. In fact, the investments associated with card production are taken into consideration when evaluating the performance of this second activity.

Gross Margin (in '000 €)	1H 2005	1H 2004	Change %	2004	2003	Change %
Goods Identification	18,164	16,274	11.6%	33,891	33,199	2.1%
Margin % Sales	42.0%	44.3%		43.2%	42.5%	
People Authentication	5,843	2,857	104.5%	5,813	5,273	10.2%
Margin % Sales	34.1%	48.4%		54.3%	56.7%	
Distribution		1,099	-100.0%	2,054	2,317	-11.4%
Margin % Sales		16.2%		15.6%	16.0%	
Corporate	7	9	-16.8%	0	6	
Total	**24,014**	**20,239**	**18.7%**	**41,758**	**40,795**	**2.4%**
Total Margin % Sales	**39.8%**	**41.5%**		**41.42%**	**40.8%**	

7.3.3.1 Goods Identification

The influence of large roll-outs on the gross margin, like that of the 2003 roll-out in The Netherlands, was lower in 2004, allowing an improvement in the margin (gross margin/sales 43.2% in 2004 versus 42.5% in 2003). High volume roll-outs have an effect on the gross margin/Sales percentage. In a solution involving both hardware and high value-add services, the services typically command higher margins than the related hardware. Additionally, whether a project is medium-sized or large, the scope of associated services is usually comparable. Therefore, given comparable services contributions, large projects typically have lower gross margin percentages than medium-sized projects.

The strong growth of the sales in 1H 2005 was the result of multiple projects involving high value-added services, which limits the decrease in percentage of the gross margin/sales.

7.3.3.2 People Authentication

In 2004, the change in gross margin is also positive in this sector in absolute terms (+€0.54 million). As a percentage of sales (54.3% in 2004 vs. 56.7% in 2003), gross margin has decreased in parallel to the growth in eID related sales. Production capacities were significantly under utilized in 2003 and again in 2004, which explained this activity's final performance.

The growth in sales in 1H 2005 was achieved with a weaker gross margin on sales. This is the result of a different project mix (specifically relating to the partial execution of the United Nations' contract; this project resembles, by its structure, a large Goods Identification roll-out) and the impact of the Belgian eID roll-out taking off. The increase in gross margin in absolute terms in 1H 2005 is greater, in just the first half year, than the gross margin on the entire year 2004.

7.3.4. Cash Operating Expenses & EBITDA

Operating Charges & EBITDA (in '000 €)	1H 2005	1H 2004	Change %	2004	2003	Change %
Employee costs						
Goods Identification	8,412	8,704	-3.4%	17,536	17,578	-0.2%
% Sales Segment	19.4%	23.7%		22.4%	22.5%	
People Authentication	2,524	1,721	46.6%	4,211	3,209	31.2%
% Sales Segment	14.7%	29.1%		39.3%	34.5%	
Distribution		720	nr	1,334	1,374	-2.9%
% Sales Segment		10.6%		10.1%	9.5%	
Corporate	594	544	9.2%	1,073	831	29.1%
Total Employee Costs	11,530	11,690	-1.4%	24,154	22,992	5.1%
Total Employee % Sales	19.1%	24.0%		24.0%	23.0%	
Other operating charges						
Goods Identification	4,956	4,363	13.6%	8,875	8,414	5.5%
% Sales Segment	11.5%	11.9%		11.3%	10.8%	
People Authentication	1,087	801	35.6%	1,698	1,871	-9.3%
% Sales Segment	6.3%	13.6%		15.8%	20.1%	
Distribution		239	nr	361	514	-29.7%
% Sales Segment		4.0%		2.7%	3.6%	
Corporate	460	416	10.5%	846	921	-8.2%
Total Other Operating Costs	6,503	5,819	11.8%	11,780	11,721	0.5%
Total Other % Sales	10.8%	11.9%		11.7%	11.7%	
EBITDA						
Goods Identification	4,796	3,207	49.5%	7,480	7,207	3.8%
% Sales Segment	11.1%	8.7%		9.5%	9.2%	
People Authentication	2,232	334	568.1%	(96)	193	-149.7%
% Sales Segment	13.0%	5.7%		-0.9%	2.1%	
Distribution		141	nr	358	429	-16.4%
% Sales Segment		2.4%		2.7%	3.0%	
Corporate	(1,047)	(952)	10.0%	(1,919)	(1,746)	9.9%
Total EBITDA	5,981	2,730	119.1%	5,824	6,082	-4.2%
Total EBITDA % Sales	9.9%	5.6%		5.8%	6.1%	

7.3.4.1 Goods Identification

In 2004, employee expenses were stable as a percentage of sales and the other operating charges increased slightly (5.5%), giving the Goods Identification business a small improvement in EBITDA. A restructuring in The Netherlands (July 2004) and a prudent recruiting policy in the other subsidiaries allowed Zetes to keep employee expenses under control.

In 1H 2005, the impact of the restructuring in The Netherlands continues to produce its effects and the limited growth outlook in Belgium has led the Company to a cost reduction in accordance with the continuous monitoring policy of the Company (see also section 7.3.6).

Participation in 1H 2005 in large bi- or tri-annual international exhibitions necessitated significant marketing budgets, which explains an important portion of the increase in other operating expenses compared with 1H 2004. However, expressed as a percentage of sales, the other operating expenses are decreasing.

Thanks to a higher level of sales and operating expenses under control, the EBITDA increased significantly from 1H 2004 to 1H 2005 (+49.5%).

7.3.4.2 People Authentication

The performance of the People Authentication activity in 2003 and 2004 (negative EBITDA) is clearly not representative of its potential. Besides the under utilization of the production capacities, as previously mentioned, the Company invested, for strategic reasons, in people to reinforce the Zetes PASS team which specializes in the areas of cryptography, biometrics, and security. Employee expenses increased in the People Authentication business (+31.2% or €1 million). New highly skilled people have replaced the former employees made redundant by the evolution of the production tools. In 2004, Zetes assembled a team to absorb the planned execution of the Belgian eID roll-out, which finally began at the start of the year 2005. Moreover, some experts hired were allocated to "business development". This strategy allowed Zetes to pursue international opportunities.

In 2004, the other operating expenses decreased (-€173,303 or –9.3% versus 2003). At the end of 2002, the Company decided to close the card production site that it ran in The Netherlands. The equipment was technologically outdated and the Belgian site had sufficient production capacity. The building continued to be used by the staff of the regional subsidiary until the building lease was terminated at the end of 2003. The cost reduction observed in 2004 was mainly a result of this lease termination.

Execution of contracts such as the Belgian eID roll-out and international contracts assure a structural return to profitability in 2005.

Employee costs in 1H 2005 (€2.5 million) were comparable to those of 2H 2004. As explained previously, the teams needed were already in place for the roll-out of on-going contracts, market prospection, and business development. For the execution of the United Nations' contract, sub-contracting has been used and is handled, in conformance with accounting policies, as cost of goods. However, additional costs relating to the execution of the contract with the United Nations will be incurred in H2 2005.

As a result of the international activities, travel expenses have increased, which explains the increase in the other operating expenses stated.

The fast growth of the revenue and the control of operating expenses have pushed the EBITDA margin up to 13%.

7.3.4.3 Corporate

Zetes' corporate costs amounted to €1.9 million in 2004, a slight increase compared to €1.75 million in 2003. They represent 4.6% of the gross margin generated by the Company in 2004, and 4.3% in 2003. Corporate services were strengthened in 2004 with the hiring, amongst others, of a human resources officer (see section 6.8 for more detail regarding the Company's corporate services activities).

In 1H 2005, the corporate costs increased slightly to €1.1 million compared with 1H 2004 reflecting the light corporate structure based on a decentralized organization. In 1H 2005, it represents 4.4% of the gross margin generated by the Company.

7.3.5. Non-Cash Expenses

Non-Cash Expenses (in '000 €)	1H 2005	1H 2004	Change %	2004	2003	Change %
Tangible depreciation						
Goods Identification	508	577	-12.0%	1,123	1,267	-11.3%
People Authentication	491	299	64.3%	728	700	4.0%
Distribution	0	27	-100.0%	55	22	155.9%
Corporate	7	7	2.5%	21	80	-73.5%
Total	1,006	910	10.6%	1,928	2,069	-6.8%
Intangible depreciation						
Goods Identification	48	33	48.2%	93	123	-23.9%
People Authentication	5	2	171.8%	6	4	59.0%
Corporate	10	1	1353.2%	3	2	51.8%
Total	64	35	80.4%	102	129	-20.4%
Development depreciation						
Goods Identification	644	687	-6.2%	1,371	1,142	20.1%
Total	644	687	-6.2%	1,371	1,142	20.1%
Inventory Amortization						
Goods Identification	331	162	104.5%	751	688	9.1%
People Authentication	30	9	223.7%	19	28	-33.4%
Distribution	0	(100)	nr	36	12	187.9%
Total	361	71	409.1%	805	728	10.5%
Bad debt / write off on receivable						
Goods Identification	39	89	-56.5%	11	177	-93.9%
People Authentication	0	(5)	-100.0%	(9)	57	-115.9%
Distribution	0	13	nr	78	68	14.1%
Total	39	97	-59.9%	80	302	-73.6%
Goodwill impairment						
People Authentication	0	0	nr	0	279	-100%
Distribution	0	0	nr	150	713	-79.0%
Total	0	0		150	992	-84.9%
Total non cash expences						
Goods Identification	1,571	1,548	1.5%	3,349	3,397	-1.4%
People Authentication	526	305	72.6%	744	1,068	-30.3%
Distribution		(61)	nr	319	815	-60.9%
Corporate	17	8	126.1%	24	82	-70.7%
Total	2,114	1,800	17.5%	4,436	5,362	-17.3%

7.3.5.1 Depreciations (excluding development)

a. Tangible Fixed Assets

Goods Identification

The level of depreciation was in line with the investments, which, historically, amounts to around 1% of sales. By the nature of its activity, Goods Identification requires few investments in fixed assets (system integration activity). The investments in fixed assets in 2003, 2004 and 1H 2005 related to replacements such as IT equipment, vehicles, and leasehold improvements.

People Authentication

The investments in equipment required for the eID roll-out were realized between the contract signing date with the Belgian government in 2002 and the end of 2004. The evaluation rule regarding the depreciation of the specific investments made for this contract requires the card production machines to be depreciated in proportion to the cards they produce (see section 8.3.5.5d). In 2003 and 2004, the total yearly depreciation amounted to €0.7 million. In 1H 2005, although no major additional investments are planned for this contract, the depreciation charge increased significantly now that card production is fully ramped up (increase of +€0.2 million).

b. Intangible Fixed Assets

The depreciation of intangible fixed assets was not very significant. It relates to software licences.

7.3.5.2 Development costs depreciations

The Company invests year after year in the development of new MCL software products. MCL is an environment to implement Goods Identification solutions (see section 6.5.8.1). In 2004 and 2005, Zetes continued its development efforts aimed at the integration of new technologies such as bluetooth, voice recognition and RFID into MCL-Collection (total activated costs in 1H 2005 were €0.7 million compared to an activation of €1.2 million in 2004 and €1.6 million in 2003).

The depreciation of development costs in 1H 2005 amounted to €0.6 million, in line with 2004 and 2003 (depreciation of €1.4 million and €1.1 million, respectively).

So far, no development costs have been incurred for People Authentication.

With regard to the integration of a voice recognition engine into MCL-Collection, the development efforts began in 2002 and product release is expected for the fourth quarter of 2005. The positive impact of these new developments on the Company's results is expected for the end of 2005 / beginning 2006.

7.3.5.3 Inventory

Goods Identification activity

As in 2003, the application of the Company's rules regarding inventory amortization yielded a significant level of amortization for 2004. The amount is estimated by an analysis of the rotation of the products sold (sales done in a period), with a different formula applying for the working stock and the "repair" stock.

For its Goods Identification activity, the Company has a significant repair stock (€3.3 million in 2004); this is necessary to fulfill maintenance contracts, which are a source of recurring revenue for the Company. Amortizations on this kind of inventory will remain significant in the future because the equipment is amortized when the contract ends. Similarly, the Company has a significant working stock (€4.6 million in 2004). This is explained by some suppliers' habitual significant delivery delays. This "strategic" inventory allows the Company to respond in due time to the needs of its customers but implies additional amortizations.

At €0.331 million, in 1H 2005, amortizations on inventory were above 1H 2004 (+€0.169 million). They are considered in line with those recorded in the previous years (€0.751 and €0.688 million for the full year in 2004 and in 2003 respectively).

7.3.5.4 Impairment losses

a. Impairment losses from Bad Debt

The rules in force involve the write off on receivables when delays in payment are excessive and the chances of recuperation are limited (notably in the absence of a credit insurance). Some of subsidiaries receivables are already covered by a credit insurance.

In 2003, for the Goods Identification activity, the write off were mainly related to several invoices spread across 4 different countries.

In 2004, the impairment losses (write off) on receivables were almost completely applicable to the distribution activity (this activity did not benefit from credit insurance coverage).

In 1H 2005, the level of write off was very limited reflecting the high credit worthiness of the customers.

b. Impairment losses from Goodwill

The impairment losses calculated are the result of the application of the impairment test described in the rules of evaluation (see section 8.3.5.8c).

In 2003, the loss on acquisition goodwill totaled €1 million. This broke down as €0.7 million for distribution and €0.3 million for People Authentication. This second impairment loss was associated with the People Authentication activity in The Netherlands.

The impairment test performed at the end of 2004 regarding the goodwill of the various Zetes subsidiaries lead to recognition of €149,605 loss of value relating to the distribution activity, only.

No mid-year impairment test was performed at the end of June 2005 (see section 7.4.1.5). The test is normally applied annually (December) unless exceptional circumstances. There are currently no such circumstances. At the end of June, all the Zetes entities are contributing positively to the EBITDA.

7.3.6. Restructuring costs

Restructuring (in '000 €)	**1H 2005**	**1H 2004**	**Change**	**2004**	**2003**	**Change**
Goods Identification	276	73	276.2%	162	(245)	nr
People Authentication	0	47	-100.0%	89	132	-32.5%
Corporate	0	0	nr	0	16	nr
Total	**276**	**121**	**129.0%**	**252**	**(97)**	**nr**

In 2003, some restructurings were done in the CEC Netherlands (People Authentication) and Zetes FasTrace (Belgium). In the second case, the restructuring involved the termination of relations with an associate of Zetes. Upon the buyback of shares by Zetes from its "ex-associate", a profit was realized relating to the numerous credits he held from elsewhere on Zetes FasTrace.

In 2004, these costs (€0.25 million) were primarily related to the restructuring that took place in the Goods Identification activity in The Netherlands to keep the Company's resources aligned with its activities and productivity. Zetes BV's structure was modified to match the scope of its activity — a large roll-out was implemented in 2003 and a similar roll-out did not exist in 2004.

In 1H 2005, a provision was made for a restructuring announced in Belgium in June 2005 and to be implemented in 2H 2005. The limited growth outlook in Belgium requires in an immediate reaction in order for the Company to remain competitive and safeguard its margins. Like in The Netherlands, the goal is to keep the Company's resources aligned with its activity level and its productivity. The Belgian entity is targeting a decrease of €0.05 million of its monthly operating expenses.

7.3.7. EBIT

EBIT (in '000 €)	**1H 2005**	**1H 2004**	**Change**	**2004**	**2003**	**Change**
Goods Identification	2,948	1,585	86.0%	3,969	4,056	-2.1%
People Authentication	1,706	(18)	nr	(929)	(1,007)	-7.7%
Distribution	0	201	nr	40	(386)	nr
Corporate	(1,064)	(959)	10.9%	(1,943)	(1,844)	5.4%
Total	**3,590**	**810**	**343.5%**	**1,136**	**818**	**38.8%**

In 2004, following the evolution of the restructuring costs, the EBIT of the Goods Identification activity slightly decreased to €4 million vs €4.1 million in 2003.

The People Authentication EBIT is better but still in the red at -€0.9 million. The first semester 2004 was almost break-even but the end of the roll-out of the Belgian health cards contract and the delay in the eID contract caused a loss during the second semester 2004.

The first semester 2005 is far better both in Goods and People activities. The Corporate costs remain under control, leading to an EBIT level of €3.6 million. The improvement is significant, mainly in the People Authentication business with a return to profitability.

7.3.8. Financial Results

In 2004, the net financial charge (€ 2.763 million) increased in parallel to the increase in the net debt of the Company, which, excluding subordinated debt, increased to €24.6 million (31/12/2004) coming from €19.4 million (31/12/2003). This increase resulted primarily from the delay in roll-out of the eID implementation and the additional investments agreed to for this project, as well as the acquisition of minority interests in different subsidiaries (IND/Zetes Multicom/ Blackbird Data System) (see section 7.4.4.2 for more detail). Interest is also charged on the subordinated debt issued in October 2001 and constitutes a significant element in the financial results.

Finally, in 2004, a bank consortium (called “Club Deal”) was put in place in order to finance yearly budgeted investments and to synchronize bank reimbursements with Company cash flows. A one-time consortium setup cost is included in the financial charges.

In 1H 2005, net financial charges (€1.592 million) remain high in spite of a reasonable decrease in indebtedness, which did not come into effect until Q2 2005.

The sale of the distribution activity freed up cash totaling €3.6 million (April and May 2005). The whole of this amount was allocated to the latest maturities of the bank consortium’s structured credits (being the medium term credits with amortization tables but excluding the financial leases) in conformance to the convention established in 2004 with the banks.

In order to respect the bank consortium covenants, an agreement between the bondholders and the Company was reached to capitalize the interests and make them subordinated and to increase the interest rate from 6% to 7%. In 1H 2005, a recovery of €0.2 million was tallied to reflect this agreement for past periods.

Finally, the contract signed with the United Nations provisionally necessitated supplemental lines of financing, leading to additional interest charges and resulting dossier costs.

7.3.9. Taxes

For 2003, the net charge of €267,007 broke down into a fiscal charge of €677,797 and a deferred tax credit of €410,790.

The 2004 taxes represented an income of €473,479 compared to a charge of 267,007 in 2003. This benefit broke down into a fiscal charge of €300,300 and deferred taxes of up to €773,779. For the fiscal losses that could be recuperated in the various legal entities of concern, Zetes took into consideration tax credits insofar as their probable use was, thanks to recurring business and the signed contracts, very high.

In 1H 2005, the tax charge rose to 35% of the EBT (€0.7 million compared to an EBT of €2 million) versus an income in 2004.

The expected change in revenues and profit for the full year 2005 allows that a significant portion of the deferred tax assets may be used for 2005.

7.3.10. Net Result

The net loss for 2004 amounted to €1.06 million of which €1.08 million was allocated to Zetes. This loss was a slight improvement compared to 2003 (net loss of €1.29 million of which €1.41 million was attributable to Zetes).

The negative results in 2003 and 2004 originate in the significant financial charges associated with the highly leveraged structure of the Company's balance sheet, in the under utilization of production capacities available in People Authentication, and finally in the under performance of the distribution activity (insufficient profitability in comparison to associated costs).

The leveraged financial structure stems from the rapid growth policy put in place in the past by the Company.

In spite of the financial charges that remain high, the net result for 1H 2005 amounted to €1.2 million reflecting the positive performance of the first half year in the two areas of activity. The part of the minority interests is not significant.

7.4. BALANCE SHEET

Balance Sheet Summary (in 000 €)	**1H 2005**	**2004**	**2003**
Assets			
Tangible assets	6,098	6,695	6,027
Intangible assets & development costs	2,967	2,969	2,882
Goodwill	21,707	23,413	21,930
Deferred taxes	3,362	3,455	2,680
Other non current	81	100	212
Inventory	21,247	11,095	11,371
Trade Receivables	24,909	24,571	22,496
Other Receivables	4,288	4,615	3,381
Prepayments	2,853	1,511	941
Cash	8,797	1,607	1,922
Total Assets	96,310	80,031	73,841
Liabilities			
Total Equity attribut. to equity holders of the parent	9,438	8,956	10,105
Minority interest	155	139	1,031
Subordinated debt	14,000	15,236	14,000
Non current borrowings	1,837	6,917	4,400
Non current Provisions / post employment benefits	356	267	78
Current borrowings	21,140	19,325	16,908
Current provisions	276		76
Current hedging instrument	904		
Suppliers	35,008	14,515	12,585
Advances received	5,525	6,343	7,479
Other creditor (publ adm / employees / oth)	6,999	7,552	6,097
Other current liabilities	671	782	1,082
Total Liabilities	96,310	80,031	73,841

7.4.1. Non-Current Assets

7.4.1.1 Tangible assets

The total tangible fixed asset break down by activity was as follows:

Tangible assets (in 000 €)	**1H 2005**	**2004**	**2003**
Goods Identification	2,315	2,140	2,828
People Authentication	3,752	4,058	2,678
Distribution	0	458	491
Corporate	31	38	30
Total	**6,098**	**6,695**	**6,027**

a. Investments

By the nature of its activity, Goods Identification requires few investments in fixed assets (system integration activity); investments consist primarily of replacements of, for example, IT equipment and vehicles, and office improvements. Those investments are spread across all the companies. No one has been significantly higher than the others in the period 2002 to 1H 2005. Zetes expects to continue to invest in tangible assets, each year, around 1% of the sales of the division.

The People Authentication activity requires significantly more investments in tangible fixed assets (building security systems, production machines, and information systems) than Goods Identification.

In 2003, the Company invested in a new highly productive smartcards production line in order to execute the Health Card contract and prepare for the Belgian eID contract. This investment amounted to €1.7 million and was financed by a financial leasing. Some additional security (physical and IT) were also made.

In 2005, Zetes has invested in a second smartcards production line in order to have the production capacity to roll-out the Belgian eID. This investment amounted to €1.7 million and was financed by a financial leasing.

As mentioned earlier, no additional major investments are planned for the eID contract in 2005. For the future, the People Authentication activity could require significant investments depending upon the kind of contract to be implemented. Today, the Company has excess production capacity not used by eID card production (about 35%). The size of the production facility would allow, if necessary, the addition of production lines without a major investment in real estate.

The 1H 2005 total investments amounted to €0.9 million compared to €3 million in 2004 and €2.8 million in 2003. They were primarily related to installations, machines, and IT equipment. The majority of investments relating to the Belgian eID roll out were already exposed in 2003 and 2004. The Company has not committed to any significant investment in tangible assets for the near future.

b. Divestments

Through its Spanish subsidiary, the Company sold a building in December 2004. The Spanish entity entered in a lease agreement with the new owners for a limited period of time. This contract is not eligible as a finance lease contract in the sense of IAS17. The Company also owned a building in England, used by its distribution activity, which it sold at the same time as it sold the distribution activity in April 2005. The distribution activity is not consolidated in 1H 2005 (see section 7.2.3). The impact on Zetes' tangible asset is limited.

7.4.1.2 Intangible assets

Intangible Assets (in 000 €)	**1H 2005**	**2004**	**2003**
Intangible Assets (excluding development costs)			
Goods Identification	216	247	78
People Authentication	24	23	1
Distribution	0	0	0
Corporate	75	63	1
Total	315	333	80
Development Costs			
Goods Identification	2,652	2,636	2,802
Total	**2,652**	**2,636**	**2,802**

In 2003, the intangible fixed assets amounted to €2.9 million, of which €2.8 million related to development costs.

In 2004, the total intangible fixed assets amounted to €3 million. They were primarily Goods Identification related development costs (€2.6 million).

The balance primarily related to software licenses (office suites, specific software used for integration and project management projects). In 2004, the Company implemented, in its Belgian unit, a new enterprise software specialized in installed base equipment management. The objective is to optimize the management of the repair centers and logistics. New after sales services and project management modules were also deployed. The intention is to deploy this software in the various Goods Identification subsidiaries.

7.4.1.3 Research and Development

The various professional services departments of each country and Zetes' competence centers are all realizing development work.

These developments are mainly performed within the framework of a project and are therefore integrated into global solutions. They are not specifically marketed as products and therefore, the costs associated with them are not activated. Nevertheless, these developments are a key element in Zetes' ability to deliver the right solutions to its customers and can be considered as a competitive advantage.

The only exception is the products developed by the competence center MCL Technologies, an environment to implement Goods Identification solutions (see Section 6.5.8.1 for more information about MCL-Collection). The software suite is cross-platform compatible providing interoperability between mobile computing devices made by different manufacturers. In this case, products are standard and marketed as such.

In 2003, development costs were activated for an amount of €1.6 million and the depreciation reached €1.1 million.

In 2004, activation accounted for €1.2 million and depreciation for €1.4 million.

In 1H 2005, the activated development costs (€0.65 million) were equivalent to the depreciated amounts.

7.4.1.4 Investment summary

INVESTMENTS (in 000 €) **(Excluding development)**	**1H 2005**	**2004**	**2003**
Goods Identification	687	1,108	1,122
People Authentication	167	2,110	1,859
Distribution	0	34	105
Corporate	31	83	0
Total	**885**	**3,335**	**3,086**

7.4.1.5 Goodwill

In 2004, the change in goodwill (€23.4 million in 2004 vs. €21.9 million in 2003) was caused by two factors: the acquisition of minority interests (+€1.6 million for IND in Germany, Zetes IND International in Germany, Zetes Multicom in Spain and Blackbird Data System in Ireland) and the impairment test performed on the goodwill of the various subsidiaries, which led to a goodwill impairment on the distribution subsidiary only (€0.15 million).

The impairment test is applied annually to evaluate the goodwill of each subsidiary in Zetes, using the subsidiary's annual results. At mid-year (1H 2005), the goodwill is held constant (annual application of the test) for the continuing activities. In case of exceptional events, the impairment test is also applied if needed.

In 1H 2005, the change in the goodwill amount is related to the deconsolidation of the distribution activity.

7.4.1.6 Deferred Taxes

In 2004, Zetes deferred tax assets totaled €3.5 million. This amount included a net amount of €0.4 million of temporary difference generated by the application of IFRS rules, and an amount of €3.1 million relative to the recognition of fiscal losses. The board of directors took into consideration the retrievable fiscal losses in so far as their use was probable.

7.4.2. Current Assets

7.4.2.1 Inventory

Inventory constitutes an important asset in Zetes. It is split as follows:

Inventory (in 000 €)	1H 2005	2004	2003
Goods Identification	10,535	8,897	9,377
People Authentication	10,713	681	545
Distribution	0	1,517	1,449
Total	**21,247**	**11,095**	**11,371**

The Goods Identification inventory is divided between working inventory (new equipment for projects), repair inventory (support of maintenance contracts and time-and-repair), and demonstration inventory.

The Company has a significant working inventory to compensate some suppliers' habitual delivery delays. This "strategic" inventory allows the Company to respond in due time to the needs of its customers.

As of 31/12/2004, the inventory split was as follows: working inventory 53%, repair inventory 37%, demonstration and test inventory 10%.

In 1H 2005, the inventory for sale in Goods Identification increased in 2 subsidiaries for deliveries foreseen in the beginning of Q3 2005.

In 1H 2005, the inventory of People Authentication was inflated by the United Nations' contract. As already mentioned, part of the deliveries happened in Q2 2005. The necessary equipment for assembling the kits to be delivered in H2 were already in the inventory at the end of June. This explains the €10 million increase. The inventory increase due to the eID roll out is estimated at €0.2 million.

7.4.2.2 Trade and Other Receivables

a. Trade Receivables

In 2004, trade receivables amounted to €24.6 million, of which €21 million related to Goods Identification, €1.4 million related to People Authentication, and €2.2 million related to distribution. DSO (days of sale outstanding) in Goods Identification (82 days) was higher than in the other two activities (40 days in People Authentication and 52 days in distribution). This is a result of the nature of the activity (solutions roll-outs) and end-of-year invoicing of maintenance contracts.

Compared to 2003 (€22.5 million), trade receivables increased in 2004, primarily in Goods Identification (increase of €2 million) and People Authentication (€0.45 million). By contrast, the trade receivables decreased in Distribution (€0.36 million), which was in line with the lower turnover figure recorded. The aged balance of the Goods Identification business units did not show any particular problem. The change between 2003 and 2004 was not structural, but was rather associated with invoice timing. The change was in proportion to an increase in supplier payables.

The Company does not finance customer equipment; if necessary, it offers equipment lease options through a third party company.

In 1H 2005, the sales growth in Goods Identification (18%) did not result in an increase in receivables of the same amplitude (5%). This is partly explained by the seasonality in the invoicing of maintenance contracts impacting the year-end level of receivables.

In People Authentication, the growth was limited to €1.4 million as a result of an increase in sales in eID. The invoices relating to the delivery of kits in Q2 2005 did not have an impact on the level of trade receivables thanks to the short payment terms negotiated with the United Nations' contract.

b. Other Receivables

Other receivables (in 000 €)	1H 2005	2004	2003
eID and SIS contract	3,246	3,327	2,425
Other	1,042	1,288	956
Total	**4,288**	**4,615**	**3,381**

eID and SIS contract Receivables
The eID contract and the SIS contract are accounted for as a percentage of the work completed. In 2004, the most significant portion of other receivables related to the eID contract, and was increasing awaiting accelerated production. By contrast, the amount that related to the SIS contract was declining. A decrease is expected from 2H 2005, when the half-year production pace will have reached cruising speed for the 5-year eID roll-out.

Other receivables
In 1H 2005, these include mainly VAT to recover (about €0.6 million) and current accounts in the name of Zephir and Alain Wirtz (about €0.3 million).

7.4.2.3 Current prepayments

Current prepayments pertain to invoices that have been received and booked but for which associated costs will be incurred in a later accounting year. The 2004 current prepayments related to People Authentication recognized a significant change following the progressive growth of the eID related sales.

Current Prepayments (in 000 €)	1H 2005	2004	2003
Goods Identification	602	478	393
People Authentication	2,220	985	471
Distribution	0	40	36
Corporate	31	8	42
Total	**2,853**	**1,511**	**941**

In 1H 2005, the increase in prepayments in People Authentication was related to prepayments to transportation suppliers for the United Nations' contract.

7.4.3. Trade Debt and Other Liabilities

Trade Debt and Other Liabilities (in 000 €)	**1H 2005**	**2004**	**2003**
Suppliers			
Goods Identification	15,029	11,514	8,742
People Authentication	19,774	1,612	1,624
Distribution	0	1,276	2,018
Corporate	206	113	202
Total Suppliers	35,008	14,515	12,585
Other creditor (public administration)			
Goods Identification	1,852	2,348	1,841
People Authentication	267	169	101
Distribution	0	5	135
Corporate	0	0	4
Total Other creditor (public admin)	2,119	2,522	2,082
Other creditor (employees)			
Goods Identification	1,973	2,306	2,682
People Authentication	891	881	548
Distribution	0	16	62
Corporate	99	163	52
Total Other creditor (employees)	2,963	3,367	3,344
Other Creditors (others)			
Total Other creditor (others)	1,918	1,664	671

7.4.3.1 Trade Debt

In 2004, the Goods Identification activity benefited more from suppliers' credits than in 2003 (+€2.8 million). The opposite was true for the distribution activity (–€0.74 million) which, in parallel to a reduction in turnover, encountered stricter supplier payment conditions. Supplier accounts payables in People Authentication remained stable.

In 1H 2005, the total amount in Goods Identification increased in proportion to sales (18% or €2 million) and the contracts to be delivered (€1.5 million – see also section 7.4.2.1).

For People Authentication, a small increase of €1 million is observed following the eID roll-out. The balance of the increase, €17 million, is relative to the United Nations' contract. It relates to not yet overdue invoices associated with third party equipment and furnishings (see section 7.4.2.1).

7.4.3.2 Other Creditors

Other liabilities in 2004 primarily broke down into federal and regional tax debts and remuneration and social security debts (€3.4 million, stable compared to 2003). A debt towards two minority shareholders in IND (German subsidiary of the Company) remained open as of 30/06/2005 (see section 6.9). The amount was paid in July 2005.

7.4.3.3 Advances received (Deferred Income) and Other current liabilities (Accrued Charges)

Current Advances Received (in 000 €)	**1H 2005**	**2004**	**2003**
Goods Identification	4,428	5,217	4,119
People Authentication	1,097	1,126	3,360
Distribution	0	0	0
Corporate	0	0	0
Total Advances Received	**5,525**	**6,343**	**7,479**

Advances received relate to receivables invoiced to customers but with revenues to be recognized in a later accounting year. In Goods Identification, these future revenues were primarily related to maintenance contracts. These contracts provide customer guarantees for proper equipment operation. Revenue from maintenance contracts is recognized on a straight-line basis over the term of the service contract. In People Authentication, these advances received were part of the usual sales cycle not applicable for the Belgian eID project and the United Nations' contract. The decrease in 2004 is linked to the execution of the Belgian health card contract.

There were no advances received in distribution.

Other Current Liabilities (in 000 €)	**1H 2005**	**2004**	**2003**
Total Other Current Liabilities	671	782	1,082

Other current liabilities constituted other costs attributed to the 1H 2005 (€0.7 million), 2004 (€0.8 million) and 2003 (€1.1 million) profit and loss accounts.

7.4.4. Liquidity and Capital Resources

Total Equity (in '000 €)	**1H 2005**	**2004**	**2003**
TOTAL EQUITY	**9,593**	**9,095**	**11,136**
A. Equity attributable to equity holders of the parent	**9,438**	**8,956**	**10,105**
Issued capital	**19,293**	**19,293**	**19,293**
Share capital	19,254	19,254	19,254
Share + premium	38	38	38
Subscribed capital *(not called for)* **(-)**			
Reserves (including translation / revaluation)	**(10,187)**	**(9,249)**	**(7,781)**
Losses not recognized in income statement on foreign currency exchange decrease	**(904)**		
Result of the period	**1,236**	**(1,088)**	**(1,406)**
B. Minority interest	**155**	**139**	**1,031**

7.4.4.1 Share Capital

The Company has 3,084,770 shares in issue (after stock split, see section 3.4.3), all of which are entitled to dividends. This number may increase up to a maximum of 4,267,970 shares (+1,183,200) by the exercise of existing Warrants (see subordinated debt 7.4.4.3).

Exchange contract

At the end of June 2005, the Company recorded a loss on foreign exchange (€0.904 million) relating to a hedging contract intended to protect the margin on dollar ($) revenues. The signing of this contract is related to the foreign exchange risk coverage policy put in place by the Company and systematically applied on large contracts. The objective is to avoid an impact on the Company's results relating to currency fluctuations. The loss reported by applying IFRS rules gives the impression that the Company's equity is affected whereas, in fact, the capital is protected. Indeed, the exchange contract hedges the currency risk on revenue in $ to be received in 2H 2005 (see also section 7.7).

7.4.4.2 Acquisition of minority interests

In 2004, the Company acquired the interests held by the minority shareholders of the companies IND [12] (Germany), Zetes IND International (Germany), Blackbird Data Systems (Ireland) and Zetes Multicom (Spain). These acquisitions totaled (maximum) €2.7 million.

As of 31/12/2004, all the companies were considered 100% owned with the exception of Zetes Technologies (Zetes owned 50%) and Zetes FasTrace (Zetes owned 75.9%). Both companies have limited contribution in Zetes. No agreement exists to acquire the interests held by these minority shareholders.

[12] *Zetes paid in July 2005 for the shares for the 14% minority interest in IND. However, the shares should be transferred to the company according to the court order dated September 12th (see section 6.9 for more detail).*

7.4.4.3 Subordinated Debt

a. Subordinated debt

In October 2001, Zetes issued subordinated bonds with a due date of October 2006. This debt of a nominal €14 million has an interest rate of 7% (see 7.3.8.); it was subscribed to by institutional investors, some of which are also shareholders of the Company. Since October 26, 2003, the interest, which is also subordinated, has been capitalized; as of 30/06/2005, it amounted to €1.9 million and will be paid to the bondholders prior to the Closing Date (see section 3.6). Following its 1H 2005 performance, the Company respects the bank deal covenants and is in a position to repay it within the year. For this reason, even if the interests keep their subordinated nature until payment, these interests are no longer considered in the subordinated debt.

b. Warrants

Warrants were issued in October 2001. The Warrant exercise is contractual in the case of an initial public offering of the Company. The number of shares to be issued following the exercise of the Warrants will not exceed 1,183,200 after stock split (see section 3.6). The cash associated with the exercise of the Warrants will be €14 million.

7.4.4.4 Financial Debt

The Club Deal was put in place with the three principal banks of the Company on April 26, 2004. The resulting financing structure at 30 June 2005 is as follows:

Bank Consortium Financing (in '000 €)	Due Date	Currency	DEBT	Amount due H2 05
CREDIT A / B	30/03/2006	€	74	61
CREDIT B / A	29/09/2006	€	605	250
CREDIT B / B	30/03/2006	€	302	250
CREDIT C	29/09/2006	€	531	219
Pyramide	1/11/2006	€	1,125	375
Others (several)	*Several from 2005 to 2007*	€	471	235
Total			**3,108**	**1,390**

LEASING				Amount due H2 05
Leasing	*Several from 2005 to 2007*	€	2,131	632

Working Capital Financing		Currency	Utilization	Amount Due H2 05	Max
Revolving credit					
CREDIT D / A	30/06/2007	€	10,000		10,000
CREDIT H	31/08/2005	€	1,875	1,875	1,875
Others (Several)	Several	€	3,914	Revolving	5,626
Total			15,789		17,501
Grand total			**21,028**	**3,897**	

Financial Net Debt summary (in '000 €)	1H 2005	2004	2003
Financial debt (1)	21,028	26,242	21,308
Subordinated current interest	1,949		
Cash and cash equivalents	8,797	1,607	1,922
Net Financial Debt (1)	14,181	24,634	19,386
Subordinated debt	14,000	15,236	14,000
Total Net Debt	28,181	39,870	33,386
Gearing ratio (Net Debt/Equity)	**293.8%**	**438.4%**	**299.8%**
Gearing Zetes methodology (2) (net financial debt excl. subordinated debt/equity+quasi equity)	**60.1%**	**101.3%**	**77.1%**

(1) excluding subordinated debt
(2) According to Zetes methodology, the equity includes the proceeds of the exercise of the Warrants taking place before the Closing Date. Zetes and its bankers have always considered the subordinated bond as quasi equity in the calculation of the gearing.

At the Closing Date, the subordinated debt will be repaid (see section 3.6). The Company debt position will be improved by the capital increase resulting from the exercise of the Warrants (€14 million) and, immediately after, by the capital increase linked to the Offering (€30 million).

As of December 31, 2004, excluding the subordinated debt (€14 million), the net debt of the Company increased by €5.2 million, going from €19.4 million (31/12/2003) to €24.6 million (31/12/2004). This change was primarily a result of the delay in the eID roll-out as well as the additional investments agreed to by the Group for:

- eID production; and
- acquisition of minority interests.

The net debt strongly declined in 1H 2005, mainly as a result of the sale of the distribution activity, cash flow from operations, and a discount for advanced payment on the partial execution of the United Nations' contract. Due interests on the subordinated bond (€1.9 million) will be reimbursed before the IPO and are added to the banks' net debt.

The sale of the distribution activity allowed direct (due to the cash in of proceeds), and indirect (due to the end of its consolidation into the Company's consolidated accounts) debt reduction.

Credits A, B, C and D are repayable after the Closing Date. It is the Company's intention to refinance the amounts to be repaid at conditions taking into account the new balance sheet structure.

7.4.5. Net working capital

Working capital (in '000 €)	**1H 2005**	**2004**	**2003**
Assets			
Inventory	21,247	11,095	11,371
Trade Receivables	24,909	24,571	22,496
Other Receivables	4,288	4,615	3,381
Prepayments	2,853	1,511	941
Total	**53,297**	**41,793**	**38,189**
Liabilities			
Suppliers	35,008	14,515	12,585
Advances received	5,525	6,343	7,479
Other creditor (publ adm / employees / oth)	6,999	7,552	6,097
Other current liabilities	671	782	1,082
Total	**48,203**	**29,192**	**27,243**
Net working capital	**5,094**	**12,601**	**10,946**

In 2004, the trade receivables increased reasonably (€2.1 million) and in parallel with an increase in supplier credits (€1.9 million), without posing any particular problem; the aged balance remained of quality. The construction contracts also increased (€0.9 million) while waiting for the Belgian eID roll-out which started in Q1 2005. The decline in advances received (€1.1 million) was associated with the execution of a major contract while the other creditors (+ €1.5 million) concerned a debt regarding minority shareholders paid in July 2005.

In 1H 2005, the net working capital requirements decreased thanks to the short payment terms negotiated with the United Nations' contract.

7.5. DISTRIBUTION ACTIVITY FROM 2002 TO 2004

Summary					
	2004	2003	2002 (1)	04 vs 03	03 vs 02
Distribution					
Sales	13,174	14,450	12,697	-8.8%	13.8%
Gross Margin	2,054	2,317	2,135	-11.4%	8.5%
% Sales Segment	15,6%	16,0%	16,8%		
Operating expenses	1,695	1,889	1,771	-10.2%	6.6%
EBITDA	358	429	364	-16.4%	17.9%
% Sales Segment	2,7%	3,0%	2,9%		
Non Cash expenses	319	815	204	-60.9%	299.2%
EBIT	40	(387)	160	-110.3%	-341.8%

(1) According to management figures

Revenues

The distribution revenues amounted to €13.2 million in 2004, an 8.8% decline compared to 2003. By contrast, in 2003, the activity recognized an organic increase of 13%, passing from €12.7 to €14.4 million. This evolution and the strategic reflection about the activity within Zetes ultimately led to the sale of the activity (see 7.2.3).

Gross Margin

Under the pressure of competition, the relative gross margin in 2004 decreased slightly to 15.6% of sales compared to 16.1% in 2003 and 16.8% in 2002. Thanks to the services margins of the value-added distribution model, which offset lower hardware margins, the 2003 Gross Margin increased in absolute terms regarding 2002. This strategy could not avert a slight decrease in 2004.

EBITDA

The strict controls of the operating expenses allow the EBITDA to remain fairly stable at a low €0.4 million from 2002 up to 2004 (3% relative to sales).

Non Cash Expenses

In 2004, the write off on receivables were almost completely applicable to the distribution activity due to the fact that this activity did not benefit from credit insurance coverage. In 2003, the write off amount was not significant.

The impairment test on Acquisition goodwill performed at the end of 2004 and 2003 lead to a loss of value recognition of €0.15 million (2004) and €0.7 million (2003). Those losses are explained by the lack of expected profitability.

EBIT

The distribution activity EBIT level remained low in 2002, in 2003 and in 2004, with a negative amount in 2003 following a significant loss on acquisition goodwill (€0.7 million). Those poor results partially motivated the decision to sell the activity.

7.6. 2002-2003 CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO BELGIAN GAAP

7.6.1. Overview income statement

Profit and loss account (in '000€)	2003 BGAAP	2002 BGAAP	Change
Sales	101,296	85,036	19.1%
Gross margin	**40,538**	**36,738**	**10.3%**
Payroll, social sec. & Pension	(23,579)	(21,380)	10.3%
Operating charges	(11,762)	(11,407)	3.1%
Ebitda	**5,197**	**3,951**	**31.6%**
Depreciation & write off fixed assets	(2,255)	(2,527)	-10.8%
Stocks & receivable written-off	(1,194)	(771)	54.9%
Operating profit (ebit)	**1,748**	**653**	**167.9%**
Financial income	267	260	2.7%
Financial charges	(3,797)	(4,242)	-10.5%
Of which debts charges	(1,768)	(2,256)	-21.6%
Of which goodwill amortization	(1,706)	(1,615)	5.6%
Of which other financial charges	(324)	(371)	-12.7%
Current profit (loss)	**(1,783)**	**(3,329)**	**-46.5%**
Extraordinary result	1	(684)	
Profit (loss) before taxes	**(1,782)**	**(4,013)**	**-55.6%**
Income taxes	(725)	(553)	31.3%
Profit (loss) after taxes	**(2,507)**	**(4,565)**	**-45.1%**
Share of minorities	203	(16)	-1351.3%
Group share result	(2,710)	(4,549)	-40.4%

7.6.2. Turnover

Sales grew significantly between 2002 and 2003 in the Company's three areas of activity. In Goods Identification, it is the entity in the Netherlands that bolstered the growth through a very important roll-out for a client active in the distribution sector. Therefore, it increased its revenue by €5.5 million compared to 2002. In People Authentication, the Company executed the first part of the contract for the Belgian health cards. This led to an increase in sales of more than €4.5 million between 2002 and 2003.

7.6.3. Gross margin

gross margin	2003 Belgian GAAP	2002 Belgian GAAP	Change
Total	40,538	36,738	10.34%
Margin % Sales	40.02%	43.20%	

The Gross Margin was influenced by the important roll-outs executed in The Netherlands in Goods Identification and in Belgium in People Authentication. In absolute value, the growth was very positive since the gross margin increased by €3.8 million.

7.6.4. Operating expenses

Employee expenses

Employee expenses increased reflecting the increase in activity relative to sales in Goods Identification and pushed by the launch of the Belgian Health Card roll-out which required a significant mobilization of additional resources.

Other operating expenses

The other operating expenses increased very slightly compared to 2002. Particular attention was paid to these expenditures, specifically in order to reduce the costs of Zetes' real estate leases (in UK and in The Netherlands where the number of leases was reduced from three in 2001 to two in 2002 and one end of 2003).

7.6.5. EBITDA

EBITDA in 2003 improved reasonably thanks to an increase created by Zetes' different activities and a good control of the increase in operating expenses. People Authentication contributed positively to Zetes' EBITDA in 2003.

EBITDA	2003 Belgian GAAP	2002 Belgian GAAP	Change
Total	5,198	3,951	31,56%
EBITDA % Sales	5,13%	4,65%	

7.6.6. Non cash expenses

Non-Cash Expenses	2003 BGAAP	2002 BGAAP
In '000 € / year ended 31 December		
Tangible Depreciation	2,021	2,330
Intangible Depreciation	234	198
Inventory Amortization	876	437
Bad debt Write off	318	334
Subtotal	**3,449**	**3,299**
Goodwill Amortization	1,706	1,615
Total Non Cash Expenses	**5,155**	**4,914**

Depreciations and amortizations excluding goodwill

Depreciations and amortizations increased between 2002 and 2003 (€0.15 million). This change was an almost exclusive result of a group policy for more strict depreciation on inventory.

Goodwill amortization

In addition to the accelerated depreciations justified by poor performance, the goodwill is according to Belgian GAAP accounting policies depreciated linearly over 20 years across all the subsidiaries of the Company. The comparable level of depreciation between 2002 and 2003 calls for no special remarks.

7.6.7. Financial results

The cost of net debt decreased reasonably, declining from €2.4 million in 2002 to €1.8 million in 2003. This change is essentially explained by the reduction in debt following the increase in capital raised at the end of December 2002.

7.6.8. Extraordinary result

The year 2002 was distinguished by restructurings to put in place the necessary conditions to improve the profitability in the underperforming subsidiaries.

7.6.9. Income taxes

The 2002 and 2003 taxes amounted to €0.6 million and €0.7 million respectively despite a negative before-tax result for Zetes. This abnormal situation reflects the disparity in the profitability of the companies within the group; the profits of the profitable companies did not compensate the losses of other companies, engendering a tax loss.

7.6.10. Overview balance sheet

Assets (in '000€)	**2003 BGAAP**	**2002 BGAAP**
Non current assets	**28,967**	**28,524**
Formation expenses	12	18
Intangible assets	271	607
Goodwill	22,630	22,663
Tangible assets	5,634	4,913
Non current financial assets	420	323
Current assets	**42,266**	**43,885**
Amounts receivable > 1 year	0	178
Inventory	14,351	13,265
Of which stock	11,926	12,912
Of which construct contract	2,425	353
Current trade	24,015	22,621
Other receivables	967	945
Other current financial	6	12
Cash and cash equivalent	1,916	5,861
Other current assets	1,011	1,001
Total assets	**71,233**	**72,409**

Liabilities (in '000€)	**2003 BGAAP**	**2002 BGAAP**
Equity attrib to equity holders	**7,748**	**10,699**
Capital	19,293	19,293
Reevaluation surplus	54	45
Conversion differences	(144)	105
Reserves	(11,454)	(8,744)
Minority interest	**1,137**	**354**
Provisions and deferred taxes	**0**	**247**
Debts	**62,348**	**61,109**
Non current financial debts	**18,400**	**20,674**
Of which subordinated bond	14,000	14,317
Of which leasing	967	339
Of which other financial debts	3,432	6,018
Current debts	**38,555**	**34,936**
Current portion of non current debt	5,287	3,110
Current financial debts	11,576	10,223
Current trade debts	12,565	14,648
Advances received	3,334	1,400
Other creditors	5,793	5,554
Of which other creditor (public administration)	1,372	1,982
Of which other creditor (employees)	3,995	3,050
Current liabilities	**5,393**	**5,499**
Total liabilities	**71,233**	**72,409**

Non current assets

The increase in non current assets is linked to the investments made in the People Authentication business in preparation for the eID contract. In 2003, the company made investments globally for €2.8 million against €2.1 million in 2002.

The goodwill remains stable at €22.6 million in 2003 vs €22.7 million in 2002. This is the result of the acquisitions made in 2003 and the application of the Belgian Gaap depreciation rule (€1.7 million). Minority interests were acquired in Zetes France (21%), in Zetes FastTrace (26%) and in CEC Belgium (17%).

Inventory
Excluding the construction contract, the stock decreased in 2003 by €1.0 million, following close control. By contrast, the construction contract referring mainly to the Belgian eID project increased significantly, showing the progress in its preparation. In 2003, a value of €2.4 million was included in the inventory account against €0.4 million in 2002.

Trade

In 2003, the trade balance increased by €1.4 million, an increase of 6.2% compared with the increase in sale (+19.2%).

Cash
The Cash decreased significantly from €5.9 million to €1.9 million, at the end of 2003. The capital increase made at the end of 2002 (€3.7 million) was used as foreseen for the preparation of the eID contract.

Minority interest

The increase of the minority interest (+€0.8 million) is linked to the 2003 result allocated to the minority interest (€0.2 million) and of the purchase of negative minority interests (CEC Belgium (17%)).

Financial debt
The net debt, excluding the subordinated debt, increased from €14.1 million in 2002 to €19.4 million in 2003 and the current portion of non current debt increased from €3.1 million to €5.3 million. In order to link the bank reimbursements with the eID cash flow, an agreement with the bank was negotiated in Q4 2003 (and finalized early in 2004).

Current trade debts

The current trade debts decreased significantly (from €14.6 million to €12.6 million) mainly following the credit control policy put in place by important US manufacturers.

Other creditors
The advances received increased significantly from €1.4 million to €3.3 million, thanks to the prepayment made in the People Authentication activity.

7.7. RECENT DEVELOPMENTS

In the course of Q3 2005, both People Authentication and Goods Identification activities continue to benefit from the trend observed in 1H 2005.

In Q3 2005, the Company further executed the United Nations' contract. At the end of August 2005, the unusual working capital observed on 30 June 2005 has returned to normal by the decrease in inventory to its usual level (after assembly and delivery of the kits) and the payment of the suppliers.

Even though Q3 was marked by the seasonal vacation slow-down, the Company kept its treasury under control. It is as follows as of 31 August 2005:

Net indebtedness '000 €	**End of August 2005**
A. Cash	7,061
B. Cash equivalent	0
C. Trading securities	0
D. Liquidity	**7,061**
E. Current Financial Receivable	**0**
F. Current Bank Debt	14,036
G. Current portion of non current debt	4,006
H. Other current financial debt	77
I. Current financial debt	**18,118**
J. Net Current financial indebtedness	**11,057**
K. Non current Bank Loans	1,034
L. Bonds Issued	0
M. Other non current loans	0
N. Non current financial indebtedness (1)	**1,034**
O. Current Subordinated bond interests	2,132
P. Net financial indebtedness (1)	**14,223**
Q. Subordinated debt	**14,000**
R. Total Net indebtedness	**28,223**

(1) Excluding subordinated debt

At the Closing date, the subordinated debt will be repaid (see section 3.6). The Company debt position will be improved by the capital increase resulting from the exercise of the Warrants (€14 million) and, immediately thereafter, by the capital increase linked to the Offering (€30 million).

Total Current Debt 31/08/2005 (in '000€)	**18,118**
Guaranteed	11,690 (1)
Secured	1,417 (2)
Unguaranteed / Unsecured	5,011

(1) Guarantees:
Club Deal Crédit A Tr A: Shares of Zetes Industries in IND & Zetes IND International GmbH
Club Deal Crédit A Tr B: Floating charges on the Company's business for an amount of €270,000 and pledge on the Company's shares in Zetes SA & CEC SA
Club Deal Crédit B Tr A & B: Floating charges on the Company's and Zetes SA's business for an amount of €3.3 million and pledge on Zetes SA's shares in ID-All
Club Deal Crédit C: Floating charges on the Company's, Zetes SA's and CEC's business for an amount of €1,930,000
Club Deal Crédit D: Floating charges on the Company's, Zetes SA's and CEC's business for an amount of €11 million
(2) Assets secured: leased assets

Total Non-Current Financial Debt 31/08/2005 (in '000€)	**1,034**
Guaranteed	197 (3)
Secured	650 (4)
Unguaranteed / Unsecured	188

(3) Guarantees:
Club Deal Crédit B Tr A: Floating charges on the Company's and Zetes SA's business for an amount of €3.3 million and pledge on Zetes SA's shares in ID-All
Club Deal Crédit C: Floating charges on the Company's, Zetes SA's and CEC's business for an amount of €1,930,000
(4) Assets secured: leased assets

Subordinated Debt (1) : Principal + Interest 31/08/2005 (in '000€)	**16,132**
Unguaranteed / Unsecured	16,132

(1) Subordinated bond principal equals €14 million and interests = €2.132 million. It will be repaid prior to the Closing Date and the Warrant holders have confirmed that they will exercise all their Warrants prior to the Closing Date, leading to a capital increase of €14 million.

Shareholder's equity (in '000€)	**10.306**
a. Share Capital	19,293
b. Reserves	(8,951)
c. Other Reserves (Losses not recognized in income statement on foreign currency exchange decrease)	(36)

At the end of June 2005, the Company recorded a loss on foreign exchange (€0.904 million) relating to a hedging contract, and as result its equity value decreased by this amount. On August 31 2005, the contract was used for hedging the revenues in $ and the "marked to market" loss on remaining foreign exchange contracts has been reduced to €0.036 million. The equity value increased by €0.867 million.

7.8. OUTLOOK

As a confirmation of the results booked in 1H 2005, Zetes expects to grow strongly in revenue and operating profit in the second half of the year. Without taking into account the Distribution activity sold in April 05, the company is expected to grow by 50% to 55% in sales and multiply its EBITDA by more than 2.5.

7.8.1. Goods Identification

The sales growth observed in 1H 2005 is expected to continue at a slower pace in 2H 2005. The Company expects growth to continue primarily in the large European countries (Germany, UK and Spain) where Zetes entities are ideally positioned to leverage the centralized transnational resources (Zetes' competence centers, see section 6.3.3). The gains in productivity generated by the introduction of new technology continue to be significant, particularly with the use of voice recognition technology. As a result, the Company is confident in its ability to achieve its 2005 budget and anticipates a growth in sales in the range of 12% to 15% for the full year 2005. The implementation of new technologies, like voice recognition, are very attractive for the customers and leads Zetes to sell complete solutions involving barcode systems, portable terminals and wireless infrastructure.

Zetes realizes 85% of its yearly revenues with its existing customer base, thanks to new projects and recurring business (maintenance and consumables). This recurring business currently represents 25%, and the goal of the management is to reach up to 30%, of the total revenue.

By focusing on projects with high value-added services, Zetes anticipates a level of gross margin on sales in the order of 41%. Thanks to efficient cost control, an EBITDA with growth from 15 to 23% compared to 2004 is foreseen for the full year 2005. The targeted EBITDA margin is about 10%.

Zetes also envisions growth through acquisitions or greenfield subsidiaries in various European countries where it has little or no direct presence. The board of directors of the Company has decided, in this respect to incorporate a new subsidiary in Italy. It remains confident in its European deployment strategy, allowing it to offer multinational customers an identical level of service in the majority of western European countries. The management considers this as a strong competitive advantage.

Finally, Zetes continues to invest in the acquisition of competences in tomorrow's identification technologies (Competence Centers). These teams are already at work so they will be ready to integrate these technologies as soon as they are reliable and sufficiently mature.

7.8.2. People Authentication

Regarding the Belgian eID contract, the production level of 160,000 identity cards per month is now achieved. This corresponds to the average monthly level expected for the next 5 years (about ten million identity cards are to be produced).

In the second quarter of 2005, Zetes was awarded a significant contract involving the implementation and delivery of voter enrolment kits for elections anticipated in Congo (partial execution in 1H 2005, remaining mainly in 2H 2005). This contract, signed with the United Nations (UNDP/IAPSO), was won thanks to Zetes' mastery of the competences required to authenticate people (security, biometrics, and cryptography) and identify goods (integration of hardware, software, and mass roll-outs). Its mastery of these technologies allows Zetes to position itself ideally in this new market—at the intersection of Zetes' two historic markets. Having already completed 30% of the contract value in 1H 2005, Zetes will invoice about €20 million in 2H 2005.

The existence of renowned customer references, international and national alike, assure an important visibility of Zetes in the People Authentication market. Specialized teams work on different opportunities but the sales cycles are generally quite long and the chances of success are more difficult to evaluate than in Goods Identification because the majority of ordering parties are governments. One request for proposal has already been launched by the United Nations for a solution in Africa (Mali), similar to the Congo voter registration project. Zetes has been short-listed and will make its best efforts to meet the requirements of the customer and to be competitive in price. The international community (European Union, United Nations, ...) has already publically declared its support to seven other African countries preparing voter enrolment and election processes in 2006 and 2007.

The size of these opportunities is also different. For example, the largest annual contract won by Zetes in People Authentication was in the order of 7 times greater than that won in Goods Identification. Finally, the investments required to realize People Authentication projects depend greatly on the structure and location of said projects. If the Belgian facility cannot be used, a project involving the production of identity documents in a secure environment could mean the furnishing of a significant infrastructure, including buildings and/or production equipment. These investments will not, however, be made before the signing of a contract. By contrast, the implementation of mobile identity systems requires an investment in roll-out equipment but not in real estate or production lines. Zetes is confident in its ability to manage both kinds of projects.

Growth in the People Authentication activity should primarily be organic. Acquisitions, however, are possible, especially in the interest of acquiring technological know-how.

For fiscal 2005, the sales in the People Authentication activity will be at least 4 times greater than in 2004 (a growth of 300% to 350%), most notably following the quasi-complete implementation of the United Nations' contract. Outside of the United Nations' contract, the budgeted growth is in the order of 80%, most notably following the roll-out of the eID contract. In 2H 2005, the Company anticipates an EBITDA in the order of 2 to 3 times the EBITDA of 1H 2005. The targeted EBITDA margin for 2005 is in the range of 13% to 16%.

7.8.3. Corporate

Outside of the costs related to the Offering, which will be reported separately, a growth in the order of 5% is foreseen in 2H 2005 costs compared to 1H 2005 costs.

8. FINANCIAL INFORMATION

8.1. CONSOLIDATED ACCOUNTS

The 2002 accounts have been established in accordance with Belgian GAAP. The 2003 accounts, originally prepared in accordance with Belgian GAAP, have been restated and audited for comparison purposes.

The 2003 and 2004 consolidated accounts are drawn up in accordance with IFRS and have been adopted for issuance by the board of directors on June 10, 2005. The accounting policies and notes set out are an integral part of these consolidated financial statements.

The preparation of financial statements in conformity with IFRS requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Finally, the 1H 2005 condensed interim financial statements have been prepared in accordance with the accounting policies and methods of computation used for the 2004 and 2003 annual financial statements.

8.2. CONDENSED INTERIM FINANCIAL STATEMENTS ACCORDING TO IFRS

8.2.1. Income statements

Income statement	1H 2005 IFRS (1)	1H 2004 IFRS
In '000 € / year ended 30 June		
Total operating income	**60,401**	**48,711**
Operating revenues	**60,390**	**48,676**
Sale of goods	54,922	48,216
Revenue from construction contracts	5,160	92
Other operating revenue	308	367
Other operating income	**11**	**35**
Income from government grants	11	35
Operating expenses	**(56,811)**	**(47,901)**
Raw materials and consumables used	(48,053)	(27,868)
Changes in inventories of finished goods and work in progress	11,667	(654)
Employee expenses	(11,530)	(11,690)
Depreciation and amortization	(1,431)	(1,016)
Impairment losses	(39)	(97)
Research and development	(644)	(687)
Restructuring costs	(276)	(121)
Other operating expenses	(6,503)	(5,769)
Operating profit	**3,590**	**810**
Gains / (loss) from derecognition of available for sale financial assets	(29)	0
Gains / (loss) from the disposal of non current assets	16	(123)
Finance costs	(1,671)	(1,641)
Income / (loss) from investments	79	113

(1) The sold distribution activity is consolidated in the 1H 2005 financial statements according to IFRS 5 (available for sale activity). This represents a loss of €0.05 million for the period from 1 January 2005 until the date of termination of the activity.

Income statement (continuation)	**1H 2005 IFRS (1)**	**1H 2004 IFRS**
In '000 € / year ended 30 June		
Profit / (loss) before tax	**1,985**	**(841)**
Income tax (expense) / income	(694)	129
Profit / (loss) after tax, from continuing operations	**1,291**	**(713)**
Post-tax loss of discontinued operations	(49)	0
Profit / (loss) of the period	**1,242**	**(713)**
Attributable to minority interest	6	0
Attributable to equity holders of the parent company (group earnings)	1,236	(713)

Earnings (losses) per share (€ per share) (2)	**1H 2005**	**1H 2004**
Group earnings excluding discontinued operations	**1,285**	**(679)**
Group earnings including discontinued operations	**1,236**	**(713)**
Number of shares	**3,084,770**	**3,084,770**
Excluding discontinued operations	0.417	(0.220)
Including discontinued operations	0.401	(0.231)

(1) The sold distribution activity is consolidated in the 1H 2005 financial statements according to IFRS 5 (available for sale activity). This represents a loss of €0.05 million for the period from 1 January 2005 until the date of termination of the activity. For comparison purposes the result after tax of the distribution activity amounted to a loss of €0.03 million for the first semester of 2004.
(2) Taking into account the split of shares at a ratio of 10 new shares for one existing share (see section 3.4.3).

Diluted shares and earnings (losses)

In order to give a true and fair view, the Company considers that the diluted earnings (losses) per share have to be disclosed according to realistic assumptions and will not disclose those according to IAS 33, requiring the maximum of shares that can be created following the exercise of the Warrants (1,183,200 additional shares, see section 3.4.2) to be taken into account. The exact number of shares being created following the exercise of the Warrants depends on the performance of the Company between the issuing date and the exercise date of the Warrants. The Company discloses the following scenario:

Number of new shares created by exercise of the Warrants Assuming a pre-money valuation (1) of	**€105 million**	**€115 million**	**€125 million**
New Shares	**848,857**	**772,898**	**709,417**
Existing Shares	**3,084,770**	**3,084,770**	**3,084,770**
Diluted number of Shares	**3,933,627**	**3,857,668**	**3,794,187**
1H 2005 IFRS			
Diluted group earnings (losses) per share			
Including discontinued operations	0.314	0.321	0.326

(1) pre-money valuation is defined as the valuation of the Company following the exercise of the Warrants but before the capital increase associated with the Primary Offering.

8.2.2. Balance sheet

According to the IAS 34/20, the comparison of the 1H 2005 balance sheet accounts is made with year-end 2004 balance sheet accounts.

Consolidated balance sheet In '000 €	**1H 2005**	**2004**
ASSETS		
Property, plant and equipment	6,098	6,695
Intangible assets	2,967	2,969
Goodwill	21,707	23,413
Deferred tax assets	3,362	3,455
Other non current financial assets	0	0
Cash restricted or pledged	81	100
Non-current assets	**34,215**	**36,632**
Inventories	21,247	11,095
Other current financial assets	1	6
Current trade and other receivables	29,197	29,186
Current prepayments	2,853	1,511
Cash and cash equivalents	8,797	1,601
Current assets	**62,095**	**43,400**
Total assets	**96,310**	**80,031**

EQUITY AND LIABILITIES	**1H 2005**	**2004**
Issued capital	19,293	19,293
Share capital	19,254	19,254
Share premium	38	38
Translation/revaluation reserves	46	(103)
Retained earnings (accumulated losses)	(10,234)	(9,146)
Profit (Group Share) of the period	1,236	(1,088)
Losses not recognized in income statement on foreign currency exchange decrease	(904)	-
Equity attributable to equity holders of the parent	**9,438**	**8,956**
Minority interest	**155**	**139**
Total equity	**9,593**	**9,095**
Non-current interest bearing borrowings	15,837	22,153
Non current provisions	284	235
Non current post employment benefit obligation	72	32
Non current liabilities	**16,193**	**22,420**
Current interest bearing borrowings	21,140	19,325
Current provisions	276	0
Current hedging instruments	904	0
Current trade and other payables	47,532	28,410
Other current liabilities	671	782
Current liabilities	**70,523**	**48,517**
Total equity and liabilities	**96,310**	**80,031**

8.2.3. Cash flow statement

Cash flow statement In '000 €	**1H 2005**	**1H 2004**
CASH FLOW FROM OPERATING ACTIVITIES		
Cash flows relating to operations (1) + (4)	2,586	592
(1) Profit (loss) from operations	3,146	695
(2) Non-cash adjustments	2,388	1,717
(3) (Increase) decrease in working capital	5,846	(580)
(4) Taxes	(560)	(103)
(5) Net cash provided by (used in) operating activities: (1) to (4)	**10,820**	**1,729**
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisitions (6) + (7)	(1,563)	(3,884)
(6) of non-current assets other than financial	(1,563)	(3,030)
(7) of subsidiaries and associates	0	(854)
(8) Disposals	3,568	69
(9) Interest received classified as investing	28	12
(10) Net cash provided by (used in) investing act. (6) to (9)	**2,033**	**(3,803)**
CASH FLOW FROM FINANCING ACTIVITIES		
(11) Proceeds from cash flows from financing activities	73	5,130
(12) Repayment relating to cash flows from financing act.	(3,988)	(969)
(13) Interest paid classified as financing	(1,372)	(1,318)
(14) Bank overdrafts increased (decreased)	(376)	(1,386)
(15) Net cash provided by (used in) financing act: (11) to (14)	(5,663)	1,457
(16) Net increase (decrease) in cash and equival.	7,190	(617)
(17) Effect of exchange rate changes on cash (& equivalents)		16
Cash and cash equivalents, beginning of period	**1,607**	**1,922**
Cash and cash equivalents, end of period	**8,797**	**1,321**

The Cash Flow statement is established taking into account the sale of the distribution activity. The working capital variation is e.g. to understand out of the variation of the distribution working capital requirements.

8.2.4. Consolidated statement of changes in shareholders' equity

Consolidated statement of changes in shareholders' equity (in '000 €)	**Issued capital**	**Translation/ Revaluation Reserves**	**Retained earnings (accumul. losses)**	**Equity attributable to equity holders of the parents**	**Minority interest**	**Total equity**
Balance at 31 December 2004	**19,293**	**(103)**	**(10,234)**	**8,956**	**139**	**9,095**
Equity increase resulting from business combination					10	
Profit (loss) 2005 to Group equity			1,236			
Profit (loss) 2005 to minorities					6	
Revaluation of assets						
Losses not recognized in PL on foreign currency exchange decrease			(904)			
Translation differences		149				
Balance at 30 June 2005	**19,293**	**46**	**(9,901)**	**9,438**	**155**	**9,593**

8.2.5. Company statement

In accordance with IAS 34/16, the company is making the following statement.

There is seasonality in Goods Identification sales, the second semester typically being higher than the first (45-50% of the turnover for the 1st semester against 50-55% for the 2nd). The only exception on the last five years relates to 2003 when the major roll-out in the Netherlands was executed in 1H 2003. Concerning People Authentication, the level of turnover is linked to the roll-out of major contracts. No particular seasonality has been experienced. The unusual item affecting (by its size) 1H 2005 is limited to the United Nations' contract. The related accounts and the corresponding amounts are reported in the MD&A. About thirty percent of the contract has been executed as of June 30, 2005 and between 90% and 95% is expected to be done by the end of December 2005. The issuances and repayments of debt are reported in the cash flow statements. No dividend has been paid during the interim period. The segment reporting is fully reported in the MD&A. There is no material event subsequent to the end of the interim period that has not been reflected in the financial statements for the interim period (the execution of the United Nations' contract is not considered as a subsequent event). During the interim period, the Company sold its distribution activity. A restructuring was announced in the Belgian entity at the end of June and a provision has been made for it (see 7.3.6). Finally, the changes in contingent assets and liabilities are limited to the changes in the non current post employment benefit liabilities (linked to early retirements), increasing to €0.072 million on June 30, 2005 against €0.032 million on December 31, 2004.

8.3. FINANCIAL ACCOUNTS 2004 – 2003 ACCORDING TO IFRS

8.3.1. Income statement

Income statement	Note	2004	2003
In '000 € / year ended 31 December			
Total operating income	**(8.3.7.3)**	**100,829**	**100,105**
Operating revenues		**100,758**	**100,088**
Sale of goods		99,234	98,644
Revenue from construction contracts		1,082	584
Other operating revenue		443	860
Other operating income		**70**	**17**
Income from government grants		70	17
Operating expenses		**(99,692)**	**(99,287)**
Raw materials and consumables used		(58,955)	(60,605)
Changes in inventories of finished goods and work in progress		(226)	1,043
Employee expenses		(24,154)	(22,992)
Depreciation and amortization		(2,835)	(2,925)
Impairment losses		(230)	(1,294)
Research and development		(1,371)	(1,142)
Restructuring costs		(252)	97
Other operating expenses		(11,670)	(11,468)
Operating profit		**1,136**	**818**
Gains / (loss) from the disposal of non current assets		**90**	**(6)**
Finance costs		**(3,025)**	**(2,155)**
of which, interest expenses		(2,465)	(1,768)
Income / (loss) from investments		**262**	**315**
of which, interest		34	40
Other non-operating expenses		**(1)**	**0**
Profit / (loss) before tax		**(1,537)**	**(1,027)**
Income tax (expense) / income	**(8.3.7.4)**	**473**	**(267)**
Profit / (loss) after tax, excluding discontinued operations		**(1,064)**	**(1,294)**
Profit / (loss) of the period		**(1,064)**	**(1,294)**
Attributable to minority interest		24	112
Attributable to equity holders of the parent company		(1,088)	(1,406)

Earnings (losses) per share (€ per share) [1]		
Number of shares	**3,084,770**	**3,084,770**
Basic earnings (losses) per share	**(0.353)**	**(0.456)**

[1] Taking into account the split of shares at a ratio of 10 new shares for one existing share (see section 3.4.3)

8.3.2. *Balance sheet*

Consolidated balance sheet	Note	2004	2003
In '000 € / year ended 31 December			
ASSETS			
Property, plant and equipment		**6,695**	**6,027**
Land and buildings		327	658
Plant and equipment		4,653	3,255
Motor vehicles		948	1.166
Leasehold improvements		666	817
Other property, plant and equipment		101	131
Intangible assets	**(8.3.7.6)**	**2,969**	**2,882**
Goodwill		**23,413**	**21,930**
Deferred tax assets	**(8.3.7.7)**	**3,455**	**2,680**
Other non current financial assets		**0**	**0**
Cash restricted or pledged		**100**	**212**
Non-current assets		**36,631**	**33,731**
Inventories	**(8.3.7.8)**	**11,095**	**11,371**
Other current financial assets	**(8.3.7.9)**	**6**	**6**
Current trade and other receivables	**(8.3.7.10)**	**29,186**	**25,877**
Trade receivables		24,571	22,496
Other receivables		4,615	3,381
Current prepayments		**1,511**	**941**
Cash and cash equivalents		**1,601**	**1,916**
Current assets		**43,400**	**40,111**
Total assets		**80,031**	**73,841**

EQUITY AND LIABILITIES		**2004**	**2003**
Issued capital	(8.3.7.13)	19,293	19,293
Share capital		19,254	19,254
Share premium		38	38
Translation/revaluation reserves		(103)	(42)
Retained earnings (accumulated losses)		(9,146)	(7,740)
Profit (Group Share) of the period		(1,088)	(1,406)
Losses not recognized in income statement on foreign currency exchange decrease			
Equity attributable to equity holders of the parent		**8,956**	**10,105**
Minority interest		**139**	**1,031**
Total equity		**9,095**	**11,136**
Non-current interest bearing borrowings		**22,153**	**18,400**
Bank borrowings		5,332	3,255
Subordinated debt		15,236	14,000
Finance leases		1,454	967
Other borrowings		131	178
Non current provisions	**(8.3.7.12)**	**235**	**78**
Non current post employment benefit obligation		**32**	**0**
Non current liabilities		**22,420**	**18,478**
Current interest bearing borrowings		**19,325**	**16,908**
Bank borrowings		2,089	1,366
Finance leases		1,174	600
Bank Overdrafts		15,970	14,698
Other borrowings		92	244
Current provisions	**(8.3.7.12)**	**0**	**76**
Current hedging instruments			
Current trade and other payables	**(8.3.7.13)**	**28,410**	**26,161**
Trade payables		14,515	12,585
Advances received		6,343	7,479
Other payables		7,552	6,097
Other current liabilities		**782**	**1,082**
Current liabilities		**48,517**	**44,227**
Total equity and liabilities		**80,031**	**73,841**

8.3.3. Cash flow statement

Cash flow statement	2004	2003
In '000 € / year ended 31 December		
CASH FLOW FROM OPERATING ACTIVITIES		
Cash flows relating to operations (1) + (4)	1,412	414
(1) Profit (loss) from operations	1,712	1,092
(2) Non-cash adjustments	3,669	5,060
(3) (Increase) decrease in working capital	(3,942)	(3,740)
(4) Taxes	(300)	(678)
(5) Net cash provided by (used in) operating activities: (1) to (4)	**1,139**	**1,734**
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisitions (6) + (7)	(5,887)	(5,663)
(6) of non-current assets other than financial	(4,745)	(4,755)
(7) of subsidiaries and associates	(1,142)	(908)
(8) Disposals	505	530
(9) Interest received classified as investing	34	76
(10) Net cash provided by (used in) investing act. (6) to (9)	**(5,348)**	**(5,057)**
CASH FLOW FROM FINANCING ACTIVITIES		
(11) Proceeds from cash flows from financing activities	7,490	734
(12) Repayment relating to cash flows from financing act.	(2,393)	(3,841)
(13) Interest paid classified as financing	(2,465)	(1,771)
(14) Bank overdrafts increased (decreased)	1,271	4,370
(15) Net cash provided by (used in) financing act: (11) to (14)	3,903	(508)
(16) Net increase (decrease) in cash and equival.	(305)	(3,830)
(17) Effect of exchange rate changes on cash (& equivalents)	(10)	(109)
Cash and cash equivalents, beginning of period	**1,922**	**5,861**
Cash and cash equivalents, end of period	**1,607**	**1,922**

Additional information regarding 2004 consolidated accounts

Reconciliation from operating profit (P&L) to profit (loss) from operations (CF Statement).

From Operating profit (loss) of the P&L (in '000 €)	**1,136**
Financial exchange loss	(287)
Financial exchange gain	207
Others financial charges (others than interest)	(273)
Others financial income (others than interest)	20
Deferred taxes	774
Gain (loss) on disposals of fixed assets	90
Others	45
To Profit (loss) from operations of the Cash Flow Statement	**1,712**

8.3.4. *Consolidated statement of changes in shareholders' equity*

(in '000 €)	Issued capital	Translation/ Revaluat. Reserves	Retained earnings (accumul. losses)	Equity attributable to equity holders of the parents	Minority interest	Total equity
Balance at 31 December 2002	**19,293**	**150**	**(8,744)**	**10,699**	**354**	**11,053**
Change in accounting policy (1)			1,004	1,004	(59)	946
Restated balance at 1 January 2003	**19,293**	**150**	**(7,740)**	**11,703**	**295**	**11,999**
Equity increase resulting form business combination					623	623
Profit (loss) 2003 to Group equity			(1,406)	(1,406)		(1,406)
Profit (loss) 2004 to minorities					112	112
Revaluation of assets		63		63		63
Translation differences		(255)		(255)		(255)
Balance at 31 December 2003	**19,293**	**(42)**	**(9,146)**	**10,105**	**1,031**	**11,136**
Equity increase resulting form business combination					(916)	(916)
Profit (loss) 2004 to parent equity			(1,088)	(1,088)		(1,088)
Profit (loss) 2004 to minorities					24	24
Revaluation of assets		(54)		(54)		(54)
Translation differences		(8)		(8)		(8)
Balance at 31 December 2004	**19,293**	**(103)**	**(10,234)**	**8,956**	**139**	**9,095**

(1) See note 8.3.7.17

8.3.5. *Accounting policies*

The principal accounting policies adopted when preparing these consolidated financial statements are set out below.

8.3.5.1 Basis of preparation

The financial statements are prepared on the historical cost basis, except for the measurement at fair value of available-for-sale investments and derivative financial instruments.

8.3.5.2 Early adoption of standards

The board of directors decided to establish consolidated accounts for Zetes from 2004 onwards using IFRS. The consolidated accounts ending December 31, 2004 are the first statements made and published using this method. The consolidated accounts ending December 31, 2003 are restated using this method to assure comparability between the accounting years. The IFRS opening balance is established on the 1st of January 2003.

At 31 December 2004, the European Commission has endorsed all IFRS that were in issue at 31 December 2004, except for certain provisions on the use of the full fair value option and on hedge accounting (referred to as the 'carve-out'). These provisions are not applicable to Zetes. Therefore these financial statements are in compliance with the IFRS endorsed by the European Commission.

8.3.5.3 Basis of consolidation

a. Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has an interest of more than one half of the voting rights of an enterprise or otherwise has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences (or a date nearby) until the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is calculated as the fair value of the assets given up, the shares issued and the liabilities assumed at the date of acquisition plus any costs directly attributable to the acquisition.

Intra-group balances and transactions, and unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

b. Joint ventures

Joint ventures are those enterprises over whose activities Zetes has joint control together with a third party, established by contractual agreement. Today, Zetes does not have any ventures of this kind.

8.3.5.4 Foreign currency translation

Transactions in foreign currencies are translated into euro at an average rate that approximates the foreign exchange rate ruling in the period in which the transaction has taken place. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into euro at the foreign exchange rate ruling at that date. All foreign exchange gains and losses arising on this translation and from the settlement of the transactions are recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into euro at the foreign exchange rate ruling at the date of the transaction.

Financial statements of subsidiaries

The assets and liabilities of subsidiaries stated in foreign currencies are translated into euro at foreign exchange rates ruling at the balance sheet date. Goodwill and fair value adjustments related to the acquisition of foreign subsidiaries are translated at the historical rate at the date of acquisition and therefore no exchange differences arise. Revenues and expenses are translated into euro at the average rate for the period. Foreign exchange differences arising on translation are recognized directly in equity. When a foreign entity is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

8.3.5.5 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to Zetes and the revenue can be measured reliably. Additionally, the following criteria must be met:

a. Sale of products

Revenue from the sale of products is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

b. Maintenance contracts

Revenue from maintenance contracts is recognized on a straight-line basis over the term of the service contract.

c. Integration services

Revenue from integration services, such as project management and installation of equipment, is recognized in the income statement according to the percentage of completion method. The stage of completion is measured in reference to the proportion of service costs and the installation of equipment incurred to date over the estimated total service costs for each project.

d. Construction contracts

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and functions or their ultimate purpose or use. In the Zetes People Authentication business, a construction contract typically involves the design and development of a card production pilot as well as the card production roll-out accompanied with project management and other value-added personalization services.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognized using the percentage of completion method. The stage of completion is measured in reference to the number of cards produced in proportion to the total to be produced for each project. Contract costs include all expenditures directly related to specific projects and an allocation of fixed and variable overheads incurred in connection with contract activities. The aggregate of the contract costs incurred that relate to contract activity already performed, plus/less the profit/loss recognized on each contract, is compared against the progress billings to date. Where costs plus/less profit/loss exceed progress billings, the net balance is shown under trade and other receivables. Where progress billings exceed costs plus/less profit/loss, the net balance is shown under trade and other payables. Advance billings that relate to work to be performed in the future, are not considered in the above calculation and are included in advances received.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized in the income statement immediately. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred where it is probable that those costs will be recovered.

e. Royalties, interests and dividends

Revenue from royalties is recognized on an accrual basis in accordance with the substance of the relevant agreements. Interest income is recognized on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to Zetes. Income from dividends receivable is recognized when the right to receive payment is established.

8.3.5.6 Government Grants

A government grant is recognized when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Grants related to assets (such as for capital expenditure) are credited to deferred income and released to the income statement on a straight-line basis over the expected useful life of the relevant asset.

Grants relating to income are recognized in the income statement over the period necessary to match them with the costs they are intended to compensate.

8.3.5.7 Property plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Land is not depreciated. Leasehold improvements are depreciated over the shorter period of estimated useful life and lease term. Other captions are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings – structural works	20 years
Building equipment and installations	maximum 10 years
Plant installations, machinery and equipment	3 - 5 years or by the actual number of items produced vs. the total number of items expected to be produced on the machine
Goods Id equipment for commercial use (demo stock)	2 - 4 years
Computer and office equipment	3 - 5 years
Furniture	5 – 10 years
Vehicles	4 years

8.3.5.8 Intangible assets

a. Research & development

Zetes does not perform any fundamental research activities. Development expenditure is recognized as an intangible asset, only when (among other criteria) it can be demonstrated that the product resulting from the development is likely to generate economic benefits and when the expenditure incurred on the development can be measured reliably. Capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses. Amortization is charged on a straight-line basis over the estimated useful life of the related asset, which is expected to be 3 years.

b. Other intangible assets

Expenditure to acquire computer software and other licenses are stated at cost less accumulated amortization and any accumulated impairment losses. Amortization is charged on a straight-line basis over the estimated useful life, not exceeding 5 years.

c. Goodwill

Goodwill arising on acquisition of subsidiaries represents the excess of the cost of the acquisition over Zetes' share in the net fair value of the identifiable assets liabilities and contingent liabilities recognized. Goodwill is recognized as an asset and is initially measured at cost. After initial recognition, goodwill is measured at cost less accumulated impairment losses (yearly impairment test).

8.3.5.9 Current assets and liabilities

a. Inventories

Inventories are stated at the lower of cost and net realizable value.

In respect of raw materials and consumables, cost is accounted for according to the weighted average price.

The cost of goods purchased for re-sale is the individual purchase price of each individual item or the weighted average price.

Work in progress and finished goods are valued at manufacturing cost, which includes all direct production costs.

b. Inventory Amortization

The amount of Amortization is estimated by an analysis of stock rotation (sales/product), with distinction between finished goods and parts for repair.

c. Construction contracts

Construction contracts represent costs incurred (plus/less the profits/loss) in connection with contract activity (see 8.3.5.5d).

d. Trade receivables

Trade receivables are recognized and carried at original invoice amount (nominal value). Allowances are recognized when collection of the full amount is no longer probable.

e. Trade payables

Trade payables are stated at their nominal value.

8.3.5.10 Cash and cash equivalents

Cash and cash equivalents are carried at nominal value in the balance sheet. They comprise cash at bank and in hand, as well as short-term deposits with banks and acquired commercial paper that have original maturities of three months or less, that are readily convertible to cash and that are not subject to significant risks of changes in value.

8.3.5.11 Leases

a. Financial leases

Leases, in which Zetes obtains the right to use assets, are classified as finance leases if substantially all the risks and rewards incident to ownership of the leased item are transferred to Zetes. Finance leases are capitalized at the fair value of the leased item at the inception of the lease or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and the reduction of the lease debt as to achieve a constant rate of interest on the remaining balance of the debt. Finance charges are charged directly against the income statement.

Assets under financial leases are depreciated on a straight-line basis over the useful life of the asset. If there is not a reasonable certainty that Zetes will be the owner of an asset at the end of a lease, the asset is 100% depreciated according to either the length of the lease or the useful life of the asset, whichever is the shorter of the two.

b. Operating leases

Leases that do not meet the criteria of finance leases are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the lease term.

8.3.5.12 Income taxes

a. Current tax

Current tax is the expected tax payable on the taxable income for the year, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

b. Deferred tax

Deferred tax is provided using the balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from goodwill impairment. In respect of taxable temporary differences associated with investments in subsidiaries, deferred tax liabilities are not recognized when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, unused tax losses and unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilized. In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future (next five years) and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

8.3.5.13 Dividends payable

Dividends declared after the balance sheet date are not recognized as a liability at the balance sheet date but are directly deducted from equity in the period when paid.

8.3.5.14 Provisions

A provision is recognized when (i) Zetes has a present obligation (legal or constructive) as a result of a past event, (ii) it is probable that an outflow of resources will be required to settle the obligation, and (iii) a reliable estimate of the amount can be made. Where Zetes expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

8.3.5.15 Pension benefit plans and other post-employment benefits

Zetes operates various post employment benefit plans in accordance with the local conditions and practices of the countries in which it operates.

A defined contribution plan is a pension plan under which Zetes pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Contributions to defined contribution pension plans are charged to the income statement in the period to which they relate.

A defined benefit plan is a plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. There are currently no pension plans of the defined benefit type in place in Zetes.

One subsidiary provides a post-employment benefit that is not a pension plan. The benefits are unfunded and represent a legal obligation consisting of defined payments when employees leave the Company. The related provision is determined separately for each employee (present value of the estimated future cash outflows using interest rates of government bonds or high quality corporate bonds).

8.3.5.16 Derivative financial instruments

Derivative financial instruments utilized by Zetes are principally forward exchange contracts and currency options for hedging purposes. No derivatives for trading purposes are held nor issued. In 2004, Zetes did not apply special hedge accounting under IAS 39 Financial Instruments. Derivatives are stated at fair value, which is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Any gains or losses arising from changes in fair value are taken directly to net profit or loss for the period. The hedge accounting under IAS 39 is applied as from 2005.

8.3.5.17 Borrowing costs

Borrowing costs, including interest on borrowings and bank overdrafts, as well as ancillary costs incurred in connection with the arrangement of borrowings, are recognized as an expense in the period in which they are incurred.

8.3.6. Financial risk management

8.3.6.1 Credit risk

Zetes has credit limit policies in place (including in some countries credit insurances) to ensure that sales of products and services are made to customers with an acceptable credit history.

8.3.6.2 Liquidity risk

Zetes' liquidity risk is covered by a bank consortium agreement (Club Deal) with its 3 mains bankers.

On 26 October 2001, the Company issued subordinated bonds for a total amount of €14 million and Warrants (see also section 3.4.2) that entitle their holders to require the issue of Company shares for a total exercise price of €14 million. The Warrant holders have confirmed that they will exercise all their Warrants prior to the Closing Date, leading to a capital increase of €14 million. Prior to the Closing Date, all the subordinated bonds will be repaid by the Company (see section 3.6).

8.3.6.3 Interest risk

The working capital and some non-current assets are financed by the banks, making Zetes' income and operating cash flows dependent of interest rate market conditions.

8.3.6.4 Currency risk

Zetes' European focus limits its exposure to foreign exchange risks. Sales are mainly in euro, and to some extent in UK pound and US dollar. Zetes' treasury department uses forward exchange contracts and, to a lesser extent, currency options to hedge its exposure to exchange rate fluctuations. Significant sales projects usually result in a separate hedge contract with maturities specific to the sales project.

8.3.7. *Notes to the consolidated financial statements*

8.3.7.1 Consolidation

List of subsidiaries consolidated in the full year 2004 financial statements:

Subsidiary	Country	Ownership %	Turnover '000€	Method of consolidation	Change during the year (% of shares acquired)	Date of change
Blackbird Data Systems Ltd	Ireland	100	6,301	Full	20	1 Jan 2004
Blackbird Technologies	Ireland	100	0	Full		
Buco Security Cards BV	The Netherlands	100	176	Full		
Buco Card Services BV	The Netherlands	100	0	Full		
Burotica	Portugal	100	9,432	Full		
Card Encoding Company	Belgium	100	8,459	Full		
Europdata Connect BV	The Netherlands	100	274	Full		
Europdata Connect Gmbh	Germany	100	71	Full	10	1 Jan 2004
Europdata Connect UK	UK	100	13,200	Full		
Id-All	The Netherlands	100	8	Full		
IND (1)	Germany	100	13,034	Full	25.8	1 Jan 2004
Zetes BV	The Netherlands	100	8,038	Full		
Zetes Fastrace	Belgium	75,9	882	Full		
Zetes Ireland Ltd	Ireland	100	0	Full		
Zetes Ltd	UK	100	6,320	Full		
Zetes SA	France	100	5,567	Full		
Zetes SA	Belgium	100	29,822	Full		
Zetes Multicom	Spain	100	3,691	Full	15.1	1 Dec 2004
Zetes Technologies	Belgium	50	119	Full		
Zts	Portugal	100	335	Full		

(1) Two minority shareholders (representing together 14% of IND shares) have exercised in 2004 their put option and Zetes Industries has accepted it. The transfer of the sale is consequently binding but there is litigation over the exercise price of the option. See also section 6.9.

8.3.7.2 Employment

Employment	2004		2003	
	Total in units	Total in FTE(1)	Total in units	Total in FTE(1)
Average Number of Staff	469	461	478	469
Total at the end of the year	464	458	484	475

(1) FTE: Full Time Equivalent

8.3.7.3 Segment reporting

For management purposes, the Company is organized into three operating business units: Goods Identification, People Authentication and Distribution (sold April 2005). These business units are the basis on which the Company reports its primary segment information.

Principal activities are as follows (see also section 5):

- Goods Identification: providing system integration services in the Goods Identification market
- People Authentication: providing system integration services in the People Authentication market
- Distribution: distribution of hardware for the Auto-ID market.

Income statements by vertical segment

2004 (in '000 €)	**Total**	**Goods Identification**	**People Authentication**	**Distribution**	**Unallocated amounts**	**Intersegment elimination**
Revenues	100,829	78,366	10,715	13,174	-	(1,426)
Depreciation and amortization	4,436	3,349	744	319	24	-
Segment result	1,136	3,968	(929)	40	(1,943)	-

2003 (in '000 €)	**Total**	**Goods Identification**	**People Authentication**	**Distribution**	**Unallocated amounts**	**Intersegment elimination**
Revenues	100,104	78,053	9,301	14,450	6	(1,706)
Depreciation and amortization	5,360	3,395	1,067	815	82	
Segment result	818	4,056	(1,007)	(387)	(1,844)	

Balance sheets by vertical segment

2004 (in '000 €)	**Total**	**Goods Identification**	**People Authentication**	**Distribution**	**Unallocated amounts**	**Intersegment elimination**
Segment assets	50,511	36,008	10,457	4,962	143	(1,060)
Non current assets	26,968					
Current assets	2,552					
TOTAL ASSETS	**80,031**					
Segment liabilities	26,746	22,002	3,788	1,739	276	(1,060)
Equity	9,095					
Non current liabilities	22,420					
Current liabilities	21,771					
TOTAL LIABILITIES	**80,031**					
Fixed asset capital expenditures	4,540	2,314	2,110	34	83	0

2003 (in '000 €)	**Total**	**Goods Identification**	**People Authentication**	**Distribution**	**Unallocated amounts**	**Intersegment elimination**
Segment assets	46,157	34,847	7,067	5,296	73	(1,127)
Non current assets	24,821					
Current assets	2,863					
TOTAL ASSETS	**73,841**					
Segment liabilities	25,490	18,137	5,633	2,588	258	(1,127)
Equity	11,136					
Non current liabilities	18,478					
Current liabilities	18,738					
TOTAL LIABILITIES	**73,841**					
Fixed asset capital expenditures	**4,644**	**2,681**	**1,859**	**105**	**0**	**0**

Geographical segments

Revenues according to geographic area were as follows:

(in '000 €)	**2004**	**2003**
Northern Europe (*)	81,942	81,850
South Europe (**)	18,887	18,250
Total (***)	**100,829**	**100,105**

(*) Northern Europe: Belgium, the Netherlands, Germany, UK and Ireland
(**) South Europe: France, Spain and Portugal
(***) €6 thousand non-allocated in 2003

8.3.7.4 *Income tax*

(in '000 €)		2004			2003	
	Domestic	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**
Income tax expense (income)	**(822)**	**348**	**(473)**	**(201)**	**468**	**267**
Current income tax expense (income)	1	300	300	64	614	678
Deferred tax expense (income)	(822)	49	(774)	(265)	(146)	(411)

(in '000 €)	2004	2003
Tax expense using statutory rate	**0**	**0**
Net profit before taxes	(1,537)	(1,027)
Statutory tax rate	35%	35%
Tax expense using effective rate	**0**	**0**
Net profit before taxes	(1,537)	(1,027)
Effective tax rate	0%	0%

8.3.7.5 *Property, plant and equipment*

(in '000 €)	Land and buildings	Plant and equipment	Motor vehicles	Leasehold improvements	Other	Total
At 31 December 2003						
Cost	719	12,910	4,197	1,885	543	20,254
Accumulated depreciation	(60)	(9,655)	(3,031)	(1,069)	(412)	(14,227)
Net carrying amount	**658**	**3,255**	**1,166**	**817**	**131**	**6,027**
Year ended 31 December 2004						
Additions	-	2,565	383	19	17	2,984
Disposals	(250)	(3)	(49)	-	(1)	(302)
Movements from other category	(74)	24	(23)		-	(73)
Depreciation charge	(7)	(1,189)	(530)	(169)	(46)	(1,942)
At 31 December 2004						
Cost	394	14,928	4,184	1,904	495	21,905
Accumulated depreciation	(67)	(10,275)	(3,236)	(1,238)	(395)	(15,211)
Net carrying amount	**327**	**4,653**	**948**	**666**	**101**	**6,695**

(in '000 €)	Land and buildings	Plant and equipment	Motor vehicles	Leasehold improvements	Other	Total
At 31 December 2004						
Net carrying amount of PPE under finance leases		3,212	421			3,633
Amount of PPE pledged as security for liabilities (mortgage incl.)		3,212	421			3,633

8.3.7.6 Intangible assets

(in '000 €)	Goodwill	Development costs	Patents, trademarks and other rights	Computer software	Total
At 31 December 2003					
Cost	24,213	4,206	562	-	28,981
Accumulated depreciation	-	(1,404)	(482)	-	(1,886)
Accumulated impairment losses	(2,283)	-	-	-	(2,283)
Net carrying amount	**21,930**	**2,802**	**80**	**-**	**24,812**
Year ended 31 December 2004					
Additions		1,210	61	270	1,541
Acquisitions	1,633				1,633
Disposals	-	-	6	-	6
Movements from other category	-	-	(19)	19	0
Depreciation charge	-	(1,376)	(29)	(56)	(1,461)
Impairment (loss) reversal recognized in income	(150)	-	-	-	(150)
At 31 December 2004					
Cost	25,846	5,439	587	309	6,334
Accumulated depreciation	-	(2,804)	(486)	(76)	(32,181)
Accumulated impairment losses	(2,433)	-	-	-	(2,433)
Net carrying amount	**23,413**	[1] **2,636**	**100**	**233**	**26,382**

[1] Internally generated intangible net assets

8.3.7.7 Recognized deferred tax assets and liabilities

(in '000 €)	2004			2003		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Recognized Deferred tax assets and liabilities	**4,402**	**947**	**3,455**	**3,679**	**999**	**2,680**
Depreciation and amortization	583	7	576	523	0	522
Accruals	115	18	97	157	18	139
Revaluations of non current assets other than financial	644	922	(279)	846	981	(135)
Revaluations of financial instruments						
Tax losses	3,061		3,061	2,137		2,137
Tax credits				17		17

8.3.7.8 Inventories

(in '000 €)	2004	2003
Inventories	**11,095**	**11,371**
Gross carrying amounts	**14,532**	**14,470**
Production supplies	716	534
Finished goods	13,816	13,936
Write-downs and other reductions in value	**(3,437)**	**(3,099)**
Production supplies	(162)	(108)
Finished goods	(3,274)	(2,991)

8.3.7.9 Other current financial assets

(in '000 €)	2004	2003
Other current financial assets	**6**	**6**
Shares held for trading	1	1
Other financial assets available for sale	5	5

8.3.7.10 Current trade and other receivables

(in '000 €)	2004	2003
Current trade and other receivables	**29,186**	**25,877**
Trade receivables	24,571	22,496
Gross trade receivables	25,839	23,626
Allowance for bad and doubtful debts	(1,269)	(1,129)
Other receivables	4,615	3,381
Construction contracts	3,327	2,425
Other	1,288	956

Construction contracts (in '000 €)	2004	2003
Amount of contract costs incurred and recognized profits less losses	**764**	**216**
Amounts of advances received on construction contracts	**0**	**0**

Related parties

Current accounts

The current accounts (receivable) in the name of Zephir and Alain Wirtz amount to €0.323 million at the end of 2004. It is the intention of the Company to reduce significantly those current accounts for the end of 2005.

Executive management

The total remuneration paid by the Company to its entire executive management in 2004 amounted to €523,793, of which 19.85% represented variable remuneration.

8.3.7.11 Current and non-current interest bearing borrowings

Aging profile:

(in '000 €)		2004			2003	
	< 1 year	**1 to 5 years**	**Total**	**< 1 year**	**1 to 5 years**	**Total**
Bank borrowings	2,089	5,332	**7,421**	1,366	3,255	**4,621**
Subordinated borrowings		15,236	**15,236**		14,000	**14,000**
Finance leases	1,174	1,454	**2,628**	600	967	**1,568**
Bank overdrafts	15,970		**15,970**	14,698		**14,698**
Other borrowings	92	131	**223**	244	178	**421**
TOTAL	**19,325**	**22,153**	**41,478**	**16,908**	**18,400**	**35,308**

Finance leases, minimum lease payments payable, present value:

(in'000 €)		2004			2003	
	< 1 year	**1 to 5 years**	**Total**	**< 1 year**	**1 to 5 years**	**Total**
Minimum lease payments payable	1,174	1,454	**2,628**	600	967	**1,568**

Non cancelable future minimum operating lease payments: the Company is structuring its management information system in order to make this information available in all of its entities as of 2005.

8.3.7.12 Current and non current provisions

(in '000 €)	Warranty provision	Legal proceeding provision	Onerous contract provision	Other	Total
At 31 December 2003	**62**	**16**	**76**		**154**
Increase (decrease) to existing provisions	2	154			**156**
Amounts of provisions used			(76)		**(76)**
Year ended 31 December 2004	**65**	**170**	**0**		**235**

(in '000 €)	2004	2003
Contingent liabilities	**32**	**0**
Non current post employment benefit obligation	32	0
Two minority shareholders (representing together 14% of **IND** shares) have exercised in 2004 their put option and Zetes Industries has accepted it. The transfer of the sale is consequently binding but there is litigation over the exercise price of the option.		
Contingent assets	**0**	**0**

Defined contribution plans

There is no defined benefit plan in the Zetes Group. The existing defined contribution plans are in line with market practices. The yearly amount recognized as expenses for defined contribution plan is estimated to amount to between 1% and 2% of the yearly employee expenses.

8.3.7.13 Equity note

31 December, 2004	
I. CAPITAL	
Class of share capital	Ordinary
Number of shares of autorised capital	None
Number of shares issued and fully paid	308,477
Number of shares issued and not fully paid	0
Par value of shares	no par value
MOVEMENTS IN NUMBER OF SHARES	
1. Number of shares, beginning balance	308,477
2. Number of shares issued	0
3. Number of shares cancelled or reduced (-)	0
4. Number of shares, ending balance	308,477
II. OTHER INFORMATION	
Number of shares owned by the company or by subsidiaries or associates	0
Shares reserved for issuance under options / sales contracts	0
There is no other class of share capital	

8.3.7.14 *Current trade and other payables*

Aging profile:

('000 €)	2004			2003		
	< 1 year	1 to 5 years	Total	< 1 year	1 to 5 years	Total
Trade payables	14,515		14,515	12,585		12,585
Advances received	6,075	267	6,343	6,384	1,095	7,479
Other payables	7,552		7,552	6,097		6,097
of which, payables to employees			3,367			3,344
of which, payables to public administrations			2,522			2,082
TOTAL	**28,143**	**267**	**28,410**	**25,066**	**1,095**	**26,161**

8.3.7.15 *Discontinued operations and other non current assets or disposal groups held for sale*

The distribution activity, consolidated in the 2004 accounts, was sold on the 15th of April 2005. According to IFRS 5/12, the Company is making the following disclosure:

(in '000 €)	Discontinued operations
Description	Distribution
(Expected) timing of the disposal	15/04/2005
Carrying amount of assets (to be) disposed	2,884
Carrying amount of liabilities (to be) disposed	2,940
Post-tax profit (loss) of discontinued operations	114
Pre-tax profit (loss) from ordinary activities	(1,237)
Revenue from ordinary activities	89,064
Expenses from ordinary activities	(87,990)
Income tax on profit (loss) from ordinary activities	427
Gain (loss) recognized on the disposal or remeasurement	(59)
Net cash flow from (used in) operating activities from discontinued operations	(242)
Net cash flow from (used in) investing activities from discontinued operations	(51)
Net cash flow from (used in) financing activities from discontinued operations	292

8.3.7.16 *Subsequent events*

See section 7.7

8.3.7.17 Transition to IFRS

a. 2003 Belgian GAAP versus 2003 IFRS

Assets (in '000 €)	BGAAP 31/12/2003	Reclas-sifications	IAS 16 Property Plant & Equipment	IAS 18 Revenue	IAS 38 Intangible assets.	IAS 36 Impairment of assets	IAS 17 Leases	Other/Rules standardi-zation	IAS 12 Income taxes	Total	IFRS 31/12/2003
Non Current Assets	28,967										33,731
Formation Expenses	12				(12)					(12)	0
Intangible Assets	271				(191)					(191)	80
Development Costs					2,802					2,802	2,802
Goodwill	22,630					(611)		(89)		(700)	21,930
Tangible Assets	5,634		348				45			393	6,027
Deferred Taxes								(11)	2,691	2,680	2,680
Non Current Financial Assets	420	(208)								(208)	212
Current Assets	**42,266**										**40,111**
Inventory	14,351										11,371
Of Which Stock	11,926			693				(1,248)		(555)	11,371
Of Which Construct Contract	2,425	(2,425)								(2,425)	
Current Trade	24,015			(988)				(531)		(1,519)	22,496
Other Receivables	967							(11)		(11)	956
Construction Contract		2,425								2,425	2,425
Prepayments		941								941	941
Other Current Financial	6									0	6
Cash And Cash Equivalent	1,916									0	1,916
Other Current Assets	1,011	(941)		(53)				(17)		(1,011)	
Total Assets	**71,233**									**2,609**	**73,842**

Liabilities (in '000 €)	2003 BGAAP	Reclassifications	IAS 37 Provisions	IFRS 3	IAS 17 Leases	Other	Total	IFRS 31/12/2003
Equity Attrib To Equity Holders	**7,748**							**10,105**
Capital	19,293						0	19,293
Reevaluation Surplus	54					54	54	108
Conversion Differences	(144)					(6)	(6)	(150)
Reserves (1)	(11,454)					2,308	2,308	(9,146)
Minority Interest	**1,137**			**(106)**			**(106)**	**1,031**
Provisions / Deferred Taxes	**0**	**62**	**92**				**154**	**154**
Debts	**62,348**							**62,551**
Non Current Financial Debts	**18,400**						**0**	**18,400**
Of Which Subordinated Bond	14,000						0	14,000
Of Which Leasing	967						0	967
Of Which Other Financial Debts	3,432						0	3,432
Current Debts	**38,555**							**43,070**
Current Portion Of Non Current Debt	5,287	(5,287)					(5,287)	0
Current Financial Debts	11,576	5,287			45		5,332	16,908
Current Trade Debts	12,565					21	21	12,585
Advances Received	3,334	4,311				(166)	4,145	7,479
Other Creditors	5,793	26		155		123	304	6,097
Of Which Public Administration	1,372	548				161	709	2,082
Of Which Employees	3,995	(548)				(102)	(650)	3,344
Current Liabilities	**5,393**	**(4,311)**					**(4,311)**	**1,082**
Total Liabilities	**71,233**						**2,607**	**73,841**

(1) Impact transition 2002 is €1,004 thousand.

Profit and loss account (in '000 €)	2003 BGAAP	Reclassi-fications	IAS 18 Revenue	IAS 38 Intangible assets	IAS 11 Construction contracts	IAS 36 Impairment of assets	IAS 17 Leases	IAS 12 Income taxes	Other/ Rules stan-dardization	Total	IFRS 31/12/2003
Sales	101,296	(516)	(1,116)		533				(93)	(1,191)	100,105
Gross Margin	**40,538**	**17**	**(518)**		**533**				**(28)**	**5**	**40,543**
Payroll, Social Sec. & Pension	(23,579)	(159)		1,232	(480)				(7)	587	(22,992)
Operating Charges	(11,762)	(18)		336	(53)		51		(21)	293	(11,468)
Ebitda	**5,197**									**0**	**6,082**
Restructuration Costs		173							(76)	97	97
Depreciation & Write Off Fixed Assets	(2,255)	(79)		(956)		(992)	(47)			(2,075)	(4,331)
Stocks & Receivable Written-off	(1,194)		144						20	164	(1,030)
Operating Profit (Ebit)	**1,748**									**0**	**818**
GAIN (LOSS) from the disposal non current asset		(6)								(6)	(6)
FINANCIAL INCOME	267	49								49	315
FINANCIAL CHARGES	(3,797)									0	(2,155)
Of which debts & other fin charges	(2,092)	(60)					(3)			(64)	(2,155)
Of which redemption consolidation goodwill	(1,706)			1,706						1,706	0
CURRENT PROFIT (LOSS)	**(1,783)**										**(1,027)**

Profit and loss account (in '000 €)	2003 BGAAP	Reclassi-fications	IAS 18 Revenue	IAS 38 Intangible assets	IAS 11 Construction contracts	IAS 36 Impairment of assets	IAS 17 Leases	IAS 12 Income taxes	Other/ Rules stan-dardization	Total	IFRS 31/12/2003
EXTRAORDINARY INCOME	473										
Of which adjustments depreciation fixed assets	0									0	
Of which adj. amount written off Financ. Partic.	0									0	
Of which adjustments to provisions	0									0	
Of which gain on disposal fixed assets	3									0	
Of which others	470	(377)							(96)	(473)	
										0	
EXTRAORDINARY CHARGES	(472)	472								472	
Of which extraord. Amortization fixed assets	119	(119)								(119)	
Of which extraord. AM Written off Finan. Fix assets	0									0	
Of which except. Provisions	0									0	
Of which loss on disposal on fixed assets	13	(13)								(13)	
Of which other extrarodinary charges	340	(340)								(340)	
										0	
EXTRAORDINARY RESULT	1									0	
PROFIT (LOSS) BEFORE TAXES	**(1,782)**									**0**	**(1,027)**
INCOME TAXES	(725)		120	(149)				459	29	459	(267)
PROFIT (LOSS) AFTER TAXES	**(2,507)**										**(1,294)**

b. 2002 Belgian GAAP versus opening balance IFRS

The following table explains the restatements to equity as a result of the adoption to IFRS on 1 January 2003:

Consolidated balance sheet	Note	Change	Opening balance IFRS	2002 Belgian GAAP
In '000 € / year ended 31 December				
ASSETS				
Property, plant and equipment	(1)	376	5,289	4,913
Formation expenses		(18)		18
Intangible assets	(2)	(369)	238	607
Development costs	(3)	2,375	2,375	
Goodwill	(4)	(1,324)	21,338	22,662
Deferred tax assets	(5)	2,155	2,155	
Other non current financial assets	(6)	(252)	250	502
Cash restricted or pledged		43	43	
Non-current assets		2,986	**31,688**	**28,702**
Inventories	(7)	(1,408)	11,504	12,912
Construction contracts		0	353	353
Other current financial assets		(9)	3	12
Current trade	(8)	(198)	22,423	22,621
Other receivables		147	1,435	1,288
Current prepayments		(240)	419	659
Cash and cash equivalents		0	5,861	5,861
Current assets		(1,708)	**41,998**	**43,706**
Total assets		1,278	**73,686**	**72,408**
EQUITY AND LIABILITIES				
Issued capital		(1)	19,292	19,293
Share capital		0	19,254	19,254
Share premium		0	38	38
Reserves and Result of the Year	(9)	1,005	(7,589)	(8,594)
Equity attributable to equity holders of the parent		1,004	**11,703**	**10,699**
Minority interest		(59)	**295**	**354**
Total equity		945	**11,998**	**11,053**
Non-current interest bearing borrowings		(1)	20,673	20,674
Non current provisions	(10)	(147)	100	247
Non current cost employment benefit obligation			0	NA
Non current liabilities		(148)	**20,773**	**20,921**
Current interest bearing borrowings		79	13,412	13,333
Current provisions			32	NA
Current trade and other payables	(11)	374	26,270	25,896
Other current liabilities		(4)	1,201	1,205
Current liabilities		**481**	**40,915**	**40,434**
Total equity and liabilities		**1,278**	**73,686**	**72,408**

Impact of first adoption

(1) PPE

Valuation rules relating to property, plant and equipment remain unchanged. The properties of the group subsidiaries were revalued, decreasing by counterpart the goodwill on the subsidiaries. Off-balance sheet leasing contracts were recognized in the opening balance for an amount of 93K.

(2) Intangible assets / Formation expenses

The different intangible assets that were not recognized according to IFRS have been taken out of the opening balance sheet.

(3) Development costs

The development costs recognized according to IFRS (IAS 38) have been taken into consideration back from 2001. They are depreciated over 3 years.

(4) Goodwill

The company applied IFRS 3 to all business combinations. For those realized before 31/12/2002, the amount of goodwill is the carrying amount – calculated according to the Belgian GAAP – at the date of transition after the following adjustments:

- increase/decrease by reclassification of items recognized or not as intangible assets under Belgian GAAP
- increase/decrease by the amount of a contingency affecting the purchase price of a past business combination in the case that it is resolved before the date of transition
- testing the goodwill for impairment at the date of transition

These adjustments are added to/deducted from the opening equity.

(5) Deferred tax assets

The amount presented is the net amount of the deferred tax assets and liabilities. The detail of the deferred taxes (asset versus liabilities) is given in the notes to the balance sheet.

The major part of deferred tax assets is coming from tax losses which were not recognized under Belgian GAAP. The different restatements done (recognition of development costs, de-recognition of other intangible assets, amortization on stock) have accordingly generated deferred tax assets or liabilities.

(6) Other non-current financial assets

The value of all other non current financial assets have been validated, leading to a reduction of 252K.

(7) Inventories

Consistent impairment rules have been defined for the transition to IFRS and applied to the opening balance. The rules are based on the rotation of the products.

(8) Current trade

Impairment losses are booked for all receivables overdue for more than 120 days unless justified.

(9) Equity Share

The opening Equity Share at transition date was impacted by a net amount of 1,004K. This includes opposite effects as explained in this section.

(10) Non current provisions

The different provisions that were not recognized according to IFRS have been taken out of the opening balance sheet.

(11) Current trade and other payable

Some deferred charges reported in Belgian GAAP as provisions have been reclassified as other payables. The counterpart of the increase of goodwill (contingency affecting the purchase price of a past business combination) is also reported as other payable.

8.4. FINANCIAL ACCOUNTS 2003- 2002 ACCORDING TO BELGIAN GAAP

8.4.1. Income statements

Income statement	Note	2003	2002
In '000 € / year ended 31 December			
I. Operating income		**101,296**	**85,036**
A. Turnover		99,853	84,420
B. Change in stocks of finished goods, work and contracts in progress		595	
C. Other operating income		50	95
D. Other operating income		798	520
II. Operating charges		**(99,548)**	**(84,383)**
A. Raw materials, consumables and goods for resale		60,759	48,298
A1. Purchases		60,605	46,404
A2. Increase /(decrease) in stocks		153	1,894
B. Services and other goods		11,672	11,319
C. Remuneration, soc. security costs, pensions		23,579	21,380
D. Deprecations & amounts written off fixed assets		2,255	2,527
E. Increase/(decrease) in amounts written of stocks, contracts in progress and trade debtors		1,194	771
G. Other operating charges		89	88
III. Operating profit/(loss)		**1,748**	**653**
IV. Financial income		**267**	**260**
A. Income from financial fixed assets		36	1
B. Income from current assets		40	33
C. Other		191	226
V. Financial charges		**(3,797)**	**(4,242)**
A. Debt charges		1,768	2,256
B. Goodwill		1,706	1,615
D. Other		324	371
VI. Profit/(loss) on ordinary activities before tax		**(1,783)**	**(3,329)**
VII. Extraordinary income		**473**	**1,068**
A. Adjustments to deprecation of fixed assets			4
D. Adjustments to provisions of extraordinary liabilities and charges			187
E. Gain on disposal of fixed assets		3	449
F. Other	(8.4.4.9)	470	429
VIII. Extraordinary charges		**(472)**	**(1,752)**
A. Extraordinary deprecations & amounts written off fixed assets		119	85
D. Provisions for extraordinary Liabilities and charges			35
E. Loss on disposal of fixed assets		13	137
F. Other	(8.4.4.9)	340	1,495
IX. Profit/(loss) for the financial period before taxes		**(1,782)**	**(4,013)**
XI. Income taxes		**(725)**	**(553)**
A. Income taxes		(725)	(563)
B. Adjustment of income taxes and write-back of tax provisions			10
XII. Profit/(loss) for the year after taxes		**(2,507)**	**(4,565)**
XIV. A. Share of third parties		203	(16)
XIV. B. Share of the group		(2,710)	(4,549)

8.4.2. Balance sheet

Consolidated balance sheet: Assets	Note	2003	2002
In '000 € / year ended 31 December			
TOTAL NON CURRENT ASSETS		**28,967**	**28,524**
I. Formation expenses	**(8.4.4.2)**	**12**	**18**
II. Intangible assets	**(8.4.4.3)**	**271**	**607**
III. Positive consolidation differences	**(8.4.4.7)**	**22,630**	**22,663**
IV. Tangible fixed assets	**(8.4.4.4)**	**5,634**	**4,913**
A. Lands and buildings		581	639
B. Plant, machinery and equipment		1,723	1,934
C. Furniture and vehicles		744	863
D. Leasing and other similar rights		1,920	818
E. Other tangible assets		666	613
F. Assets under construction and advance payments		0	45
V. Financial fixed assets		**420**	**323**
B. Other enterprises		420	323
B1. Participating interests and shares	(8.4.4.5)	208	245
B2. Amounts receivables	(8.4.4.5)	212	78
TOTAL CURRENT ASSETS		**42,266**	**43,885**
VI. Amounts receivable after one year		**0**	**178**
VII. Stocks and contracts in progress		**14,351**	**13,265**
A. Inventory		11,926	12,912
A1. Raw materials and consumables		4	7
A2. Work in progress		3	20
A3. Finished goods		2,380	1,988
A4. Goods purchased for resale		9,370	10,367
A5. Immovable property acquired or constructed for resale		0	0
A6. Advance payments		169	529
B. Contracts in progress		2,425	353
VIII. Amounts receivable within one year		**24,982**	**23,567**
A. Trade debtors		24,015	22,621
B. Other amounts receivable		967	945
IX. Investments		**6**	**12**
A. Own shares		0	9
B. Other investments and deposits		6	3
X. Cash at bank and in hand		**1,916**	**5,861**
XI. Deferred charges and accrued income		**1,011**	**1,001**
TOTAL ASSETS		**71,233**	**72,409**

Consolidated balance sheet: Liabilities	Note	2003	2002
In '000 € / year ended 31 December			
CAPITAL AND RESERVES		**7,748**	**10,699**
I. Capital		**19,254**	**19,254**
A. Issued capital		19,254	19,254
II. Share premium account		**38**	**38**
III. Revaluation surpluses		**54**	**45**
IV. Reserves	**(8.4.4.6)**	**(11,454)**	**(8,744)**
VI. Translation differences		**(144)**	**105**
VIII. Minority interests		**1,137**	**354**
PROVISIONS, DEFERRED TAX AND LATENT TAXATION LIABILIITES			**247**
IX.A. Provisions & postponed taxes			**149**
A3. Major repairs and maintenance			51
A4. Other liabilities and charges			98
B. Deferred tax and latent taxation liabilities			97
AMOUNTS PAYABLE		**62,348**	**61,109**
X. Debts payable after 1 year	**(8.4.4.8)**	**18,400**	**20,674**
A. Financial debts		18,400	20,672
A1. Subordinated loans		14,000	14,317
A3. Leasing and other similar rights		967	339
A4. Credit institutions		3,255	5,850
A5. Other loans		178	166
D. Other amounts payable			1
XI. Debts payable within 1 year		**38,555**	**34,936**
A. Current portion of debts after one year		5,287	3,110
B. Financial debts		11,576	10,223
B1. Credit institutions		11,576	10,194
B2. Other loans			30
C. Trade debts		12,565	14,648
C1. Suppliers		12,565	14,648
D. Advances received on contracts in progress		3,334	1,400
E. Taxes, remuneration & social security		5,367	5,032
E2. Taxes		1,372	1,982
E2. Remuneration & social security		3,995	3,050
F. Other amounts payable		426	522
X. Accrued charges and deferred income		**5,393**	**5,499**
TOTAL LIABILITIES		**71,233**	**72,409**

8.4.3. Accounting policies

Below is a list of the different valuation rules used for the consolidated annual accounts.

Special attention must be paid to the following:

- The criteria that governed the constitution and adaptation of the depreciations, amortizations, provisions for risks and charges, as well as revaluations;
- The rules applied, at the time of consolidation, for the conversion of the amounts that are, or were originally, expressed in a currency other than that of the consolidated annual accounts;
- The method used for adapting the financial statements of the subsidiaries and associated companies to foreign law.

8.4.3.1 Formation expenses

Formation expenses are depreciated by 20% annually.

However, the board of directors can decide to book the costs of an increase in capital/debt issuance as an expense in the year it is incurred.

8.4.3.2 Consolidation differences

These differences are made up of disparities not allocated to the assets and liabilities, between the share in the shareholders' equity of the consolidated companies on the one hand and, on the other, the inventory value of these subsidiaries. The positive differences are booked to the assets of the balance-sheet, account "Consolidation Differences" and the negative differences are booked to the liabilities of the balance-sheet, account "Consolidation Differences". The consolidation differences are depreciated over 20 years (unless special event). This period reflects the time it takes to penetrate local markets, acquire loyal customers, and acquire know-how, skills, specific experience, and special industrial techniques. The consolidation differences in the liabilities are maintained unchanged for as long as the subsidiary, for which such a difference has been booked, is not subject to any change. However, if the amount of the difference is not significant, it may be included in one year's results. The group's share in the positive and negative differences relating to the same subsidiary is compensated.

8.4.3.3 Intangible fixed assets

Acquisition value is depreciated linearly over 3 to 5 years. The company's development costs are not capitalized; they are recognized in the year in which they are incurred.

8.4.3.4 Tangible fixed assets

Initial price or acquisition value, plus incidental costs, are depreciated linearly as follows *(pro rata temporis)*:

Buildings	3%
Building improvements	Period of the tenancy
New office furniture and equipment	20% - 33%
Used office furniture and equipment	50%
New/leased vehicle	20% - 25%
Used vehicle	Remainder of fiscal period
New computer equipment and accessories	25% - 33%
Used computer equipment and accessories	100%
Telephone equipment	20%

8.4.3.5 Financial fixed assets – Participating interests / others

Participating interests and other portfolio securities are accounted for at their acquisition price, not taking into account incidental costs booked as charges in the P/L account. The gains and losses realized in the value of the securities are calculated as the difference between the sale price and the average accounting value. At the end of each financial year, an individual valuation is made of each participating interest and portfolio security to reflect, as satisfactorily as possible, the profitability and prospects of the participating interests or shares held. The valuation method used for securities is employed systematically from one financial year to the next, without variation unless circumstances make this impossible. In principle, the valuation is based on the company's net worth – i.e., the value of its net accounting assets corrected by latent gains and losses estimated prudently and judged to be sustained and significant with regard to the company's known profitability or prospects. However, the board of directors may opt for one of the other values defined below or for the average, weighted appropriately, of several of them including the net worth:

- Yield value;
- Stock-exchange value to the extent that the market is significant;
- Conventional purchase value;
- Sale value;
- Subscription value in the case of new securities;
- Value of exercising an option held.

Sustained capital losses form a basis for depreciations.

8.4.3.6 Financial fixed assets – Amounts receivable

Amounts receivable are registered at the nominal value. When their recoverability is judged to be at risk, particularly depending upon the debtor's financial situation, these assets are depreciated.

8.4.3.7 Investments

Cash investments and deposits are accounted in the same way as the financial fixed assets. Securities quoted on the stock exchange or negotiated in a public sale are in principle valued at the stock-exchange price insofar as their market is significant. If these securities are not quoted or if their market is judged to be non-significant, they are estimated in relation to the net accounting assets.

8.4.3.8 Amounts receivable of more than one year and up to one year, Cash

These are recorded at their acquisition value or their nominal value. They are amortized for the same reasons as those set out above (see Financial fixed assets – amounts receivable).

8.4.3.9 Provisions for risks and charges

At each closing date, the board of directors examines the provisions previously set up or to be set up. The provisions relating to previous financial years are included in the results if there is no longer any reason for them.

8.4.3.10 Debts of more than one year and up to one year

These debts are accounted for at their nominal value.

8.4.3.11 Accruals accounts

At each closing date, the charges to be carried over or to be deducted and the revenues acquired or to be carried over are booked in the accruals accounts.

8.4.3.12 Assets, liabilities, charges and revenues listed in foreign currencies

Items in foreign currencies are converted into euro for the purpose of including them in the consolidated accounts. All monetary and non-monetary assets and liabilities, and the rights and commitments are converted using the closing exchange rate. The revenues and charges are converted at an average rate except for the depreciations and amortizations following the valuation of the assets concerned. Conversion differences are booked in the liabilities under the heading "Conversion Differences" subject to deduction of the share of the conversion differences attributable to third parties, which is entered in the liabilities under the heading "Third-Party Interests".

8.4.4. Notes to the consolidated financial statements

8.4.4.1 Consolidation

List of subsidiaries consolidated in the full year 2003 Belgian GAAP financial statements:

Subsidiary	Country	% ownership
3 B Engineering BV	The Netherlands	100
Blackbird Data Holdings Ltd	Ireland	100
Blackbird Data Systems Ltd	Ireland	80
Buco Security Cards BV (CEC NL)	The Netherlands	100
Buco Card Services BV	The Netherlands	100
Burotica SA	Portugal	100
Card Encoding Company SA (CEC)	Belgium	100
Europdata Connect BV	The Netherlands	100
Europdata Connect Gmbh	Germany	90
Europdata Connect Uk Ltd	UK	100
Id-All BV	The Netherlands	100
IND (*)	Germany	74.20
Inthepocket SA	Belgium	75.96
Trackline SA	Belgium	75.96
Zetes BV	The Netherlands	100
Zetes Electronics Ltd	UK	100
Zetes Ltd	UK	100
Zetes France	France	100
Zetes SA	Belgium	100
Zetes Industries SA	Belgium	100
Zetes Multicom	Spain	80
Zetes Technologies SA	Belgium	50
Zts LDA	Portugal	100

(*) See section 6.9

List of subsidiaries of minor importance not included in the consolidated full year 2003 Belgian GAAP financial statements:

Subsidiary	Country	% ownership
Buco GmbH	Germany	100%
Blackbird Technology Ltd	Ireland	80%

8.4.4.2 Statement of formation expenses

(in '000 €)	2003
Net carrying value at the end of the preceding period	18
Movements of the period	
New expenses incurred	6
Depreciations	-13
Translation differences	0
Other	0
Net carrying value at the end of the period	12

8.4.4.3 Statement of intangible assets

(in '000 €)	Research and development expenses	Concessions, patents, licenses, etc...	Goodwill
ACQUISITION COST			
At 31 December 2002	**363**	**817**	**769**
Acquisitions		53	
Sales and disposals		(168)	
Transfers from category	47		(47)
At 31 December 2003	**410**	**703**	**723**
DEPRECIATION AND AMOUNTS WRITTEN DOWN			
At 31 December 2002	**(199)**	**(532)**	**(611)**
Recorded	(132)	(90)	
Written down after sales and disposals		227	
Transfers from category	0		
Other	0	(227)	
At 31 December 2003	**(331)**	**(622)**	**(611)**
Net carrying value at 31 December 2003	**79**	**81**	**112**

8.4.4.4 Statement of tangible fixed assets

(in '000 €)	Land and buildings	Plant, machinery and equipment	Furniture and vehicles	Leasing and other similar rights	Other tangibles assets	Assets under construction and advance payments
ACQUISITION COST						
At 31 December 2002	**797**	**9,533**	**3,572**	**1,385**	**1,814**	**45**
Acquisitions	10	1,199	68	1,255	313	
Sales and disposals	(6)	(360)	(77)	(308)	(130)	
Transfers from category		(400)	(258)	636		(45)
Consolidation differences		699	50		2	
Translation differences	(18)	(3)	(42)	(9)		
Other				(0)		
At 31 December 2003	**784**	**10,667**	**3,313**	**2,959**	**2,000**	
DEPRECIATION AND AMOUNTS WRITTEN DOWN						
At 31 December 2002	(158)	(7,598)	(2,709)	(567)	(1,200)	
Recorded	(52)	(1,091)	(287)	(425)	(258)	
Written back as superfluous		(63)				
Acquisitions form third parties						
Written down after sales and disposals	6	360	211	165	125	
Transfers from category		40	220	(215)		
Consolidation differences		(595)	(38)		(1)	
Translation differences	2	3	33	4		
Other		(0)		(0)		
At 31 December 2003	**(203)**	**(8,945)**	**(2,569)**	**(1,038)**	**(1,334)**	
Net carrying value at 31 December 2003	**581**	**1,723**	**744**	**1,920**	**666**	

8.4.4.5 *Statement of financial fixed assets*

(in '000 €)	Other enterprises
PARTICIPATING INTERESTS AND SHARES	
At 31 December 2002	**245**
Transfers from category	(74)
Consolidation differences	37
At 31 December 2003	**208**
AMOUNTS RECEIVABLE	
At 31 December 2002	**78**
Additions	(313)
Reimbursements	399
Transfers from category	13
Consolidation differences	34
Other	0
At 31 December 2003	**212**

8.4.4.6 *Statement of consolidated reserves*

(in '000 €)	
At 31 December 2002	**(8,744)**
Share of the group in consolidated income	(2,710)
Other	(0)
At 31 December 2003	**(11,454)**

8.4.4.7 *Statement of consolidation differences and differences resulting from the application of the equity method*

(in '000 €)	
At 31 December 2002	**22,663**
Arising from a decrease of the percentage held	1,673
Write-downs	(1,706)
Net carrying value at 31 December 2003	**22,630**

8.4.4.8 *Statement of amounts payable after one year*

(in '000 €)	Amounts payable with a residual term of		Guaranteed debt
	Not more than 1 year	Between 1 and 5 years	
FINANCIAL DEBT	**5,287**	**18,400**	**14,234**
Subordinated debt		14,000	
Leasing and other similar obligations	555	967	1,522
Credit institutions	4,732	3,255	12,712
Other		178	

8.4.4.9 Statement of other extraordinary results

(in '000 €)	2003	2002
Other extraordinary income	**470**	**429**
Restructurings	307	
Uniformization of accounting policies	96	389
Other	67	40
Other extraordinary charges	**340**	**1,495**
Restructurings	202	1,063
Uniformization of accounting policies	6	
Other	131	432

8.4.4.10 Rights and commitments not reflected in the balance sheet

(in '000 €)	2003
Commitment to acquire fixed assets	**3,670**

8.4.4.11 Relationships with affiliated enterprises and enterprises linked by participating interest but not included in the consolidation

(in '000 €)	2003
Financial fixed assets	
Participating interest and shares	48
Amounts payable	
After one year	22

8.5. STATUTORY AUDITOR'S REPORTS

8.5.1. Limited review report of the statutory auditor on the condensed interim financial statements as of 30 June 2005 and for the six months then ended

We have performed a limited review on the condensed consolidated interim financial statements of ZETES INDUSTRIES at 30 June 2005 and for the six months then ended, with a balance sheet total of €96.31 million and a share of the group in the profit for the six months period of €1.23 million. These condensed consolidated interim financial statements have been prepared under the responsibility of the Company's management in conformity with the International Financial Reporting Standards. Our responsibility is to report on these interim consolidated financial statements based on our limited review.

We conducted our review in conformity with the recommendation of the Belgian Institute of Registered Auditors *("Institut des Reviseurs d'Entreprises")* applicable to limited review engagements. This review consisted primarily of the analysis, comparison and discussion of the financial information and, accordingly, was less extensive than an audit, the objective of which is to express an opinion on consolidated financial statements. Accordingly, we cannot and do not express an audit opinion on the condensed consolidated interim financial statements referred to above.

Our review did, however, not reveal any information that would lead to material modifications to the condensed consolidated interim financial statements.

Brussels, 27 September 2005
Sccrl Dupont, Ghyoot, Koevoets, Peeters, Rosier & Co
Réviseurs d'entreprises - Bedrijfsrevisoren represented by Thierry Dupont
Statutory Auditor

8.5.2. Statutory auditor's report on the consolidated financial statements for the year ended 2004, December 31 to the shareholders' meeting

In accordance with legal and statutory requirements, we are pleased to report to you on the performance of the audit mandate which you have entrusted to us.

This report relates to the consolidated statements rectified by the board of directors on 19 October 2005 and subjected to the approval of the general meeting of 24 October 2005; the correction brought by the board of directors contains only additional or more detailed information relating to the comparison of the results 2003 Belgian GAAP / IFRS, the related parties, the employee benefits and the segment reporting; it does not have any impact on the accounts in themselves, such as approvals by the general meeting of 10 June 2005.

We have audited the consolidated financial statements as of and for the year ended December 31st 2004 under the responsibility of the board of directors ; those consolidated financial statements have been prepared in accordance with international accounting standards IAS and IFRS as adopted by the European Commission.

The by us audited consolidated accounts show a balance total of €80,031,363 and a consolidated loss for the year of €1,063,942, minority interests included.

We have also examined the consolidated directors' report.

Unqualified audit opinion on the consolidated financial statements

We conducted our audit in accordance with the standards of the *"Institut des Réviseurs d'Entreprises/Instituut der Bedrijfsrevisoren"*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, taking into account the legal and regulatory requirements applicable to consolidated financial statements in Belgium.

In accordance with those standards, we considered the group's administrative and accounting organization, as well as its internal control procedures. We have obtained explanations and information required for our audit. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing accounting principles used, the basis for consolidation and significant accounting estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements present, in accordance with the IAS and IFRS international accounting standards, fairly the financial position, financial performance and cash flow's of the group as of 31 December 2004 and the information given in the notes to the consolidated financial statements is adequate.

Other certification and information.

We supplement our report with the following certification and information, which do not modify our audit opinion on the consolidated financial statements:

- The consolidated directors' report contains the information required by law and is consistent with the consolidated financial statements.
- Statutory accounts of most affiliated company's have been audited either by ourselves either by Belgian or foreign auditors ; accounts of affiliated company's which haven't been audited but included in the consolidated accounts represent -€1,577,573 of the group's net equity and -€111,503 of the consolidated result.
- As stated for in consolidated director's report, the consolidated accounts have been prepared for the first time in accordance with international accounting standards IAS and IFRS.
- In accordance with IFRS 1, the opening balance as of 1 January 2003 and comparative figures have been retreated to comply with IAS/IFRS requirements. The impact of the fist time application of IFRS accounting standards is presented, according to IFRS 1.40, in the appendix of the consolidated accounts.
- The company has decided, according to IFRS 3.85 "Business combinations", to apply IAS 36 as revised in 2004 prospectively starting from 31 December 2002.

Brussels, 2005, 19 October 2005
Sccrl Dupont, Ghyoot, Koevoets, Peeters, Rosier & Co
Réviseurs d'entreprises - Bedrijfsrevisorenrepresented by Thierry Dupont
Statutory Auditor

8.5.3. Auditor's report on the consolidated financial statements for the year ended December 31st, 2003 to the shareholders' meeting of the company

In accordance with legal and statutory requirements, we are pleased to report to you on the performance of the audit mandate, which you have entrusted to us.

We have audited the consolidated financial statements as of and for the year ended December 31st, 2003 which have been prepared under the responsibility of the board of directors and which show a balance sheet total of €71.232.823 and a consolidated loss for the year of €2.507.218, minority interest included. In addition, we proceeded to the examination of the directors' report.

Unqualified audit opinion on the consolidated financial statements

We conducted our audit in accordance with the standards of the *"Institut des Reviseurs d'Entreprises/Instituut der Bedrijfsrevisoren"*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, taking into account the legal and regulatory requirements applicable to consolidated financial statements in Belgium.

In accordance with those standards, we considered the company's administrative and accounting organization, as well as its internal control procedures. Company officials have responded clearly to our requests for explanations and information. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing accounting principles used and significant accounting estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, taking into account the legal and regulatory requirements, which are applicable to them, the consolidated financial statements present fairly the financial position of the company and the results of its operation for the year ended December 31st 2003 and the information given in the footnotes is properly presented.

Additional certifications and information

We supplement our report with the following certifications and information, which do not have any impact on our audit opinion on the financial statements:

- The directors' report includes the information required by the law and is in accordance with the financial statements.
- Statutory accounts of most affiliated company's have been audited either by ourselves either by Belgian or foreign auditors; accounts of affiliated company's which haven't been audited but included in the consolidated accounts represent €1.067.165 of the group's net equity and €131.503 of the group's consolidated result.

Brussels, June 1st, 2004.
Sccrl Dupont, Ghyoot, Koevoets, Peeters, Rosier & Co
Réviseurs d'entreprises - Bedrijfsrevisoren
represented by Thierry Dupont
Statutory Auditor

8.5.4. Auditor's report on the consolidated financial statements for the year ended Decembre 31st, 2002 to the shareholders' meeting of the company

In accordance with legal and statutory requirements, we are pleased to report to you on the performance of the audit mandate which you have entrusted to us.

We have audited the consolidated financial statements as of and for the year ended December 31st, 2002 which have been prepared under the responsibility of the board of directors and which show a balance sheet total of €72.408.621 and a consolidated loss for the year of €4.565.470, minority interest included. Statutory accounts of most affiliated company's have been audited either by ourselves either by Belgian or foreign auditors; accounts of affiliated company's which haven't been audited but included in the consolidated accounts represent €27.251.198 of the total balance sheet and €422.589 of the consolidated result. In addition, we proceeded to the examination of the directors' report.

Unqualified audit opinion on the consolidated financial statements

We conducted our audit in accordance with the standards of the *"Institut des Reviseurs d'Entreprises/Instituut der Bedrijfsrevisoren "*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, taking into account the legal and regulatory requirements applicable to consolidated financial statements in Belgium.

In accordance with those standards, we considered the company's administrative and accounting organisation, as well as its internal control procedures. Company officials have responded clearly to our requests for explanations and information. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing accounting principles used and significant accounting estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, taking into account the legal and regulatory requirements, which are applicable to them, the consolidated financial statements present fairly the financial position of the company and the results of its operation for the year ended December 31st 2002 and the information given in the footnotes is properly presented.

Additional certifications

We supplement our report with the following certifications, which do not have any impact on our audit opinion on the consolidated financial statements:

- The directors' report includes the information required by the law and is in accordance with the financial statements.

Brussels, May 28th, 2003.
Sccrl Dupont, Ghyoot, Koevoets, Peeters, Rosier & Co
Réviseurs d'entreprises - Bedrijfsrevisoren
represented by Thierry Dupont
Statutory Auditor

9. BUSINESS GLOSSARY

AFIS	A highly specialized biometric system that compares a single fingerprint image with the fingerprint images stored in a database. AFIS is predominantly used for law enforcement, but is also being put to use in civil applications. In the field of law enforcement, fingerprints are collected from crime scenes or taken from criminal suspects when they are arrested.
Authentication	Authentication is the process of determining whether someone or something is, in fact, who or what it is declared to be. This can be done by using smart cards, passwords and biometrics.
Auto-ID	Automatic Identification of goods and people. The Auto-ID industry includes both Goods Identification and People Authentication market.
Barcode	A technology that uses white spaces and black bars to represent encoded information. This encoded information can then be read with an optical device that converts the bars and spaces into the original information.
Biometrics	The identification of a user based on a physical characteristic, such as a fingerprint, iris, face, voice or handwriting.
Buddy punching	The practice of employees to time punch, at the correct time, the time and attendance card for a fellow employee who is late getting to work or has left work early.
CAGR	Compounded annual growth rate.
ERP	Enterprise Resource Planning refers to software packages that can integrate every aspect of your business including product planning, parts purchasing, maintaining inventories, interacting with suppliers, providing customer service, and tracking orders. Some companies that offer ERP software are SAP, Oracle and Peoplesoft.
eGovernment	The delivery of government information and services using Internet technology.
eID	Electronic Identification, often refers to an identification method that utilizes electronic technology, including, but not limited to smart cards, bar codes or radio frequency.
EBITDA	earnings before interest, taxes, depreciation and amortization.
EMEA	Europe, Middle East and Africa.
FTE	Full time equivalent.
GAAP	Generally accepted accounting principles.
High-touch	Coined by John Naisbitt in his book "Megatrends" (1982) and further developed in his book "HIGH TECH • high touch" (1999), the expression "high-touch" relates to the human interaction with high-tech. Zetes uses this term to express the human attention, involvement, and touch in a high-tech process or customer business relationship.
(e)ID card	A card used by e.g. governments or banks to identify the bearer (and the issuer).
Middleware	Middleware is software that acts as an intermediary most commonly between already existing applications. Middleware may reformat and/or process the information flowing between these applications. It may also mediate between and/or enhance these applications.
PAN	Personal Area Network. Examples of wireless PAN technologies are bluetooth.

PKI	PKI or Public Key Infrastructure is a system that enables users of a public network to exchange data securely and privately through the use of a public and private cryptographic key pair that is obtained and shared through a trusted authority.
RFID	Radio Frequency Identification Systems.
RFID reader	An RFID reader is a device that is used to interrogate an RFID tag. The reader has an antenna that emits radio waves; the tag responds by sending back its data.
RFID tag	An RFID tag is a microchip combined with an antenna in a compact package; the packaging is structured to allow the RFID tag to be attached to an object to be tracked. The tag's antenna picks up signals from an RFID reader or scanner and then returns the signal, usually with some additional data (like a unique serial number or other customized information). RFID tags can be very small - the size of a large rice grain.
SIM card	The SIM (Subscriber Information Module) card holds all personal information and phone settings of a mobile phone subscriber. In essence, it is the subscriber's authorization to use the network. It also holds the phone number, personal security key and other data necessary for the handset to function. The card can be switched from phone to phone, letting the new phone receive all calls to the subscriber's number.
Smart card	A card with a built-in microprocessor and memory used for identification or financial transactions.
WLAN	Wireless local area network. A WLAN uses radio frequency (RF) to transmit and receive data (as opposed to using a wireline network). A WLAN can either stand alone or be an extension to a LAN. WLANs generally provide higher bandwidth capabilities than WWANs. WLANs are generally privately owned, wireless systems that are deployed in a corporation, warehouse, hospital, or educational campus setting. Data rates are high and there are no per-packet charges for data transmission. Examples of WLAN technologies are IEEE 802.11b, OpenAir, HomeRF, and HiperLAN2.
WWAN	Wireless wide area network. A WWAN uses various devices — telephone lines, satellite dishes, and radio waves — to service an area broader than that which can be covered by a WLAN, although typically with lower bandwidth. WWANs are generally publicly shared data networks designed to provide coverage in metropolitan areas and along traffic corridors. WWANs are owned by a service provider or carrier. Data rates are low and charges are based on usage. Specialized applications are characteristically designed around short, burst messaging. Examples of WWAN technologies are CDPD, ARDIS, GSM and GPRS. WWAN technologies are often categorized into "generations" 1G, 2G, 3G, and 4G.

APPENDIX 1: PRESS RELEASES 2005

23 Aug 2005

ZETES to deliver the biggest voice operated order picking project in Germany for the discount chain Netto

Having already installed 250 Vocollect Talkman computer terminals and with plans to double this already impressive quantity, ZETES is currently working on the biggest voice operated order picking project Germany has ever seen.

With around 1000 branches of the German discount chain Netto welcoming more than 4.5 million people every week, nothing less than total customer satisfaction is the ambitious objective set by the Company's management. The supply chain to this large number of shops is organised by six central warehouses linked to the different regional establishments. A modern logistics system ensures the flawless supply of all the articles, which is of primary importance for the quality of the fresh food products.

In order to optimise its supply chain, Netto recently started investing in the further improvement of their order picking procedures. In addition to a new software solution – Aldata Retail Solutions order processing programme –the German group also decided to implement the innovative voice operated order picking solution marketed by ZETES (partner of Vocollect®, worldwide market leader in the field of voice technology).

Over the past year workers in the warehouse of the groups' home base Ponholz in Bavaria have been using 150 Vocollect Talkman®-terminals to pick the orders. At present the next 100 Voice terminals are being implemented in the Hodenhagen branch (near Hannover), and an additional 400 terminals have been reserved to usher in the era of voice operated order picking in the remaining four warehouses.

"Using voice technology to pick and process orders allows us to increase our productivity and at the same time reduce the error margin in the order picking process to an absolute minimum." says commercial engineer and Zetes IND (German member of the ZETES Group) Voice specialist Thies vom Hofe. "The real time data exchange during the picking activities on the one hand and the use of reference numbers combined with an increased concentration on the other, automatically led to unprecedented results. Only after the correct reference number for the corresponding warehouse location is given, the dialogue and the order picking can be continued." In comparison to traditional methods, voice picking clearly offers a more flawless supply to the Netto shops.

The WMS system sends order picking instructions to the picker via the headset, to which the picker responds verbally. As the picker is receiving audio details their eyes and hands are free to pick and load, offering an ergonomic and accurate process which is faster and less tiring. For their voice solution, Netto is using ruggedised Talkman terminals that communicate with the WMS by means of a 3iV-Pick-Client software developed by ZETES (as a component of its value-added ZETES 3i Voice solutions).

ZetesIND business manager Rainer Skau is very proud of this new reference in the commercial sector: "Voice systems allow us to reach specific niches where this technology can fully live up to its promise. In refrigerated warehouses for example, voice picking is the ideal solution because the usability of terminal displays is limited at negative temperatures and entering data and manipulating the keyboards of mobile data input devices wearing thick gloves is far from easy."

Vocollect and Talkman are Vocollect Inc trademarks.

02 Aug 2005

ZETES is First Intermec Partner to Receive Accreditation for pan-European RFID Support

Intermec Technologies and its Honours Premier Partner ZETES today jointly announced that ZETES is the first company to gain accreditation from Intermec to sell and support its market-leading RFID products on a pan European basis.

ZETES personnel working in Belgium, Germany, France, Ireland, the Netherlands, Portugal, Spain and the UK have been authorised to sell Intermec RFID products after completing extensive RFID training and testing. All accredited personnel have completed three in-depth Intermec workshops: Introduction to RFID, Installing RFID Solutions, and RFID Software Development. These courses provided qualified engineers with extensive knowledge of developing scalable RFID solutions, from surveying to installation.

ZETES is the first Honours Premier Partner authorised to sell Intermec's industry-leading range of RFID products on a pan-European basis.

"Over the last few years, ZETES has built extensive know-how on the application of RFID technology in real environments, resulting in a few dozen successful projects and satisfied references," commented Alex Driesen, ZETES' vice- president, Corporate Strategy. "I'm glad that Intermec has recognised our RFID expertise by rewarding us with this first pan-European accreditation."

"Having one of our long standing Identification & Mobility suppliers bring its highly integrated RFID portfolio to the European market will help to accelerate market adoption significantly," concluded Driesen.

Ruggedised Intermec RFID products include the IF4 and IF5 fixed readers, the IP4 mobile reader and the PM4i Intelligent printer. Intermec's RFID equipment was the first to comply with the new approved European standards for RFID at UHF. Many companies worldwide have successfully implemented Intermec's RFID equipment. METRO Group, the world's third-largest retailer and RFID pioneer, is enjoying tag read-rates of more than 90 percent, as well as complete compliance with ETSI radio standards for operation in Europe.

23 June 2005

Web Enabled Scanner Facilitates Order Placement for Customers of Lekkerland

Wholesaler Lekkerland ensures customer loyalty by offering a carefully selected assortment and excellent service. Within 24 hours the company delivers sweets, soft drinks, automotive products, fresh items, frozen products, tobacco and telephone cards to petrol stations, supermarkets and convenience stores. Profit margins on its articles being low, Lekkerland needs a high turnover at minimal cost. One of the resources used to reach this goal is the Intermec CK1 Web enabled scanner.

Lekkerland Nederland B.V. is part of the European wholesale group of Lekkerland Europe GmbH.. Lekkerland Nederland numbers about 800 collaborators and serves more than 10,000 points of sale with a vehicle fleet of 130 trucks. The company registered a 1.65 billion euro turnover in 2003 and is one of the country's largest food & non food suppliers for petrol stations. Other customers include supermarkets and tobacconists. Next to efficiency and very short delivery times, Retail Support is a valuable instrument the company employs in order to offer its customers the best possible service, with IT playing a crucial role. Duco Buijze, head of ICT at Lekkerland Benelux: "IT is at the heart of our business. In order to develop and maintain a streamlined organisation, having a direct grip on the order placement and invoicing process is extremely important. Lekkerland serves so many customers that ordering by fax would be too time-consuming and error prone. Therefore we provide our customers with a Web based EDI (Electronic Data Interchange) solution, including a mobile handheld scanner. This helps them to always have the right assortment in store."

Web Enabled

The scanners Lekkerland's collaborators and customers previously used for order placement were not fit for Internet communication. "Internet functionality was a must. We asked Zetes, a system integrator offering comprehensive automatic identification and data collection solutions, to look for the best handheld. Based on specifications we ourselves had drawn up, Zetes advised the Web enabled Intermec CK1."

Help Desk

Following the excellent test results of the Intermec CK1, Lekkerland is facing a large scale exchange project. "Our customers are enthusiastic about this initiative. Lekkerland gives them the Internec CK1 for free, as an extra service, together with the manual and help desk assistance. If a customer has trouble operating the scanner, he can solve the problem by himself or give us a call. We ourselves are also very pleased with the Internec solution. We promise our customers next day delivery. The Internec CK1 helps us to keep our word. Our efficiency has improved, mistakes are less frequent and our added value has increased. Both Zetes and Internec have given us excellent advice. We will now replace 2000 to 3000 old handhelds with the new handheld. The operation will prepare us for the future and enable us to face the competition with the fullest confidence."

11 June 2005

ZETES and ZETES 3i Voice Solutions fully support the new MCL-Collection with Vocollect Voice™ announced by MCL Technologies and Vocollect

Based on Vocollect Voice™ Technology, MCL-Collection with Vocollect Voice™ is the most recent extension of the software site for rapid application development and deployment of MCL Technologies.

The release of MCL-Collection with Vocollect Voice™ recently announced by MCL Technologies and Vocollect (see hereunder) is very good News for ZETES and for its customers.

"MCL-Collection with Vocollect Voice will bring new opportunities for our customers to benefit from Voice technology in a broader range of applications, with a mix of Voice and other data capture techniques (barcode scanning, screen-based applications, RFID...) already supported by MCL-Collection", says Marcel Kars, ZETES Voice Competence Unit Manager.

"ZETES and its local companies have a great expertise of MCL tools as well as of Voice technology from Vocollect and they are now ready and certified for selling and supporting MCL-Collection with Vocollect Voice™.

"Moreover, our complete portfolio of value-added Voice solutions, ZETES 3i Voice Solutions (Innovate, Integrate, Improve), was developed in anticipation of the release of MCL-Collection with Vocollect Voice™.

"Therefore, customers and partners who already integrated our 3i Voice Solutions will also have transparent access to this new development without having to make major changes to their current implementations", concludes Marcel Kars.

June 7, 2005

MCL Technologies and Vocollect Provide Customers with Voice Recognition for Mobile Computers

MCL Technologies, a recognized leader in high-productivity software development tools for mobile workforce applications, and Vocollect, the global leader in voice-directed work, today announced the release of MCL-Collection with Vocollect Voice™.

MCL-Collection is a sophisticated software suite to create, integrate, and deploy enterprise, multimodal mobile worker applications quickly and easily. Now, MCL-Collection with Vocollect Voice™, brings voice input and output control to these same applications.

"MCL-Collection with Vocollect Voice™ is the culmination of two years of integration effort by MCL and Vocollect to integrate Vocollect Voice™ into MCL-Collection," said Larry Sweeney, vice president product management for Vocollect. "Our partnership with MCL makes it possible for those enterprises that want to voice-enable screen-based handheld devices to quickly realize the benefits that voice technology brings to mobile workforce applications."

With its proven ability to reliably translate human speech input into transaction data and transaction data to speech output, Vocollect Voice increases the productivity and data capture speed for mobile workforce applications developed with MCL-Collection.

“MCL sees all data capture methods as complementary technologies,” said Jean-Francois Jacques, Managing Director, MCL Technologies. “MCL’s unique multimodal implementation of voice allows enterprises to mix and match data capture technologies. Be it barcode scanning, imaging, radio frequency identification, keyboard input, or voice recognition, a mobile worker has the flexibility to use whichever data capture technology is most convenient and efficient to perform the task at hand. Customers do not need to choose one data capture technology over another for their voice deployments.”
MCL-Collection with Vocollect Voice™ comprises two new components in the MCL-Collection. The first, MCL-Designer Add-On with Vocollect Voice™, voice-enables mobile workforce applications created using MCL-Designer. The second, MCL-Client with Vocollect Voice™, resides on the mobile computer and executes the voice-enabled mobile workforce applications created using MCL-Designer with its Vocollect Voice Add-On.
MCL-Collection with Vocollect Voice operates in an open-systems environment. It voice-enables MCL applications that run on voice-capable mobile computers running Microsoft® Windows® for Pocket PC 2003. MCL-Collection with Vocollect Voice works cross-platform, and cross-manufacturer.
With more and more mobile computers adding voice capabilities, companies will realize all the benefits of MCL-Collection with Vocollect Voice™ across the entire range of multimodal mobile worker applications from route-management; quality control; utility meter reading; car accident insurance appraisals; and healthcare applications to name just a few.

04 May 2005
ZETES introduces new structure for its business in the UK and Ireland
A unique strong management team to reinforce its presence and to better serve its customers in both markets

ZETES is pleased to announce that it has decided to draw the current businesses of ZETES UK and ZETES-Blackbird (Ireland) closer together.
With one management team covering Ireland and the UK, ZETES are now in a position to build on their already strong team, (nearly fifty people), of experienced and highly-skilled people that can deliver, install, support and manage Auto ID solutions very successfully in both countries.

The new ZETES UK and Ireland management team
Managing Director of the UK, Peter Beacham will extend his role to cover Ireland as well.
Financial Officer of ZETES-Blackbird, Eoin O’Shea is now taking on overall responsibility for the Finances and Administration for the UK and Ireland.
ZETES is also pleased to announce that Mr. Stephen Myers has joined the company as Sales Manager for UK and the Ireland. Stephen joins ZETES from Symbol where he was the Account Manager for Manufacturing in the UK’s Sales Team (Emerging Markets).
The Technical business of the company has been divided into three areas:
- Helen Flannery heads up the Professional Services Team (pre-sales, development, new technologies, project management, software support),
- Steve Porter heads up the Infrastructure Team (program management, RF infrastructure),
- John Radcliffe heads up the Customer Services Team (repairs, mobile repairs, support, help desk).

ZETES is also pleased to be able to announce that Fiona Hedges has joined the company as Sales and Marketing Executive.

In the recent announcement to staff Peter Beacham commented, “ZETES-Blackbird and ZETES UK have some ambitious targets to be reached in 2005. In both UK and Ireland the there are current customers and prospects who have very large projects that need to be rolled out and with the two ZETES companies now aligned, we will be in a much stronger position to help them to succeed in these major and critical projects”.

23 Apr 2005

Moving forward to higher value business, ZETES agrees to sell its Distribution Unit Europdata Connect (EDC)

ZETES is moving to a higher profile in the ID market. As a leading pan-European System Integrator of "Global IDentification and Mobility Solutions", the ZETES Group concentrates more and more its efforts and resources on value added projects and services. A new move in this direction is the selling of its Distribution Unit, Europdata Connect (EDC), leading pan-European product distributor of AIDC, RFID and Wireless Technology.

ZETES, leading pan-European System Integrator in the Global IDentification & Mobility market, reached an agreement with ScanSource (www.scansource.com), leading value-added distributor of specialty technology products, including AIDC products, to sell its shares of Europdata Connect (EDC).
EDC has 27 employees in various roles including sales, technical support and business development, and serves value added resellers throughout Europe, mainly in the UK, Ireland, Benelux, Germany and Scandinavian countries.
"EDC has built a strong business, and its employees bring a great understanding of the needs of value added resellers in the European marketplace", said Mike Baur, Scansource's President and CEO. "We look forward to integrating the EDC team into our operations so we can expand sales of products and provide additional value added services to their customer base".
Philippe Boyd, the managing director of EDC, will become Partner Services Director for ScanSource Europe, headquartered in Belgium.
"ZETES and ScanSource have had an excellent relationship for many years and we will enhance our collaboration with ScanSource in several strategic areas", said Jean-François Jacques, Managing Director for the ZETES Group.
"The sale of EDC will allow the ZETES Group to concentrate on reinforcing its leading position as a pan-European systems integrator and Global IDentification & Mobility solutions provider. As such, our main goal is to invest in technological issues (Voice, RFID, biometrics, security, ERP integration...) and in vertical expertise as well as in high value added services that will greatly benefit to our thousands of customers throughout Europe".

04 Apr 2005

ZETES provides the Alcatel Group with a "Multinational" service

When Alcatel decided to automate the management of the data streams and physical stocks in its Spare Part Management Centre in Orléans, the company appealed to ZETES. The collaboration with the Alcatel group has meanwhile been extended, now that ZETES is also responsible for the real-time follow-up – also in SAP and SAP Console environments – of the activities of the distribution centre in Geel (Belgium).

Alcatel Belgium is part of the Alcatel Telecom group that is active in more than 130 countries all over the world. Alcatel Belgium employs almost 3,000 people. From the distribution centre of Alcatel in Geel (Belgium), the products of the Alcatel DSL Access range are distributed to customers worldwide.

Real-time follow-up of all activities

Alcatel decided to implement SAP in Geel in order to support its supply chain process. Since then the warehouse management module of the SAP package controls the warehouse operations.
After the implementation of SAP, the installation of an RF application in the distribution centre of Geel was the next logical step for Alcatel in its so-called process improvement initiative. Alcatel wanted to further improve the accuracy of its processes and make the supply chain more transparent by means of a real time follow-up of all the activities of the distribution centre.

"In fact, this last requirement immediately excluded middleware as a possible option", explains Jan Laforce, Inventory & Distribution Team of the Access Supply Chain. "That is why we were looking for a solution which is close to SAP and we finally decided to use the SAP Console environment."
"SAP Console acts as a connection between SAP and the Telnet system, which enables a connection between the terminal and all kind of devices that are supported by the terminal application. We have opted for an independent platform that can be used for both the warehouse activities and the production environment."

From France to Belgium

In the next phase Alcatel elaborated the functional specifications of the project, together with TNT Logistics which is responsible for the warehousing activities in Geel. In this phase ZETES was also involved.

"We learnt that ZETES was at that time implementing an RF project in Alcatel's Spare Part Management Centre in the French city of Orléans" says Jan Laforce.

"Since Alcatel had already collaborated with ZETES in other branches and was very satisfied with the results, we also decided to partner with ZETES. We had had talks with other integrators before, but almost all their solutions were middleware-based."

Smooth interaction

The deadline for the job was tight. We had our first meeting with ZETES last summer and in the beginning of 2005 the application already had to go live. In other words, the job had to be completed within only six months, which meant that the application had to be developed and tested by the end of 2004.

"We presented the functional specifications we had laid down with our logistic service provider and asked ZETES to revise them based on their expertise and to transform them into technical specifications," says Jan Laforce. "From that moment ZETES has also assumed a part of the project management. After careful consideration between Alcatel, TNT Logistics and ZETES the final specifications of the project were drawn up. We started from our specific needs, and then ZETES indicated the possibilities within the SAP context in which we work."

"We succeeded to finalise the whole project within six months thanks to the excellent collaboration and interaction between the different parties."

11 Mar 2005

Intermec honors ZETES as New EMEA Partner of the Year 2004

"The provider of complete solutions for the supply chain management", Intermec has taken the opportunity of its last worldwide Sales & Partner Conference, held in Houston (Texas) on last February, to honor ZETES as the Best Intermec EMEA New Partner of the year 2004. This Award was presented to ZETES for having achieved the top revenue out of all new partners in this year.

Intermec and ZETES indeed extended last year their collaboration on a pan-European basis, with ZETES as Intermec Premier Solutions Partner. This award confirms that both companies took a right decision.

08 Feb 2005

Microsoft and its chairman, Bill Gates, are ready to support the Belgian eID card "very aggressively"

The Chairman and chief software architect of Microsoft, Bill Gates, will integrate the Belgian electronic identity card (eID) in MSN Messenger instant-messaging service and will examine how he can integrate the eID in other MS Windows technologies.

"With the eID we get a huge boost"

"We're working to ensure that our technologies support eID, to help make online transactions and communications more secure...", Bill Gates said. "With its program to provide citizens with electronic identification or "eID" cards, Belgium is on track to become the first country in the world to provide citizens with official electronic identification that can be used to verify identity online. This is an important step that will help Belgians access the Internet and use online services with greater safety and security, since the eID card provides the most secure identity verification that we have seen. So first of all, I would like to congratulate the government of Belgium for its leadership in advancing access to technology".

In particular, Microsoft believes that combined with the eID Card MSN Messenger chatrooms will be much safer. "We're not sure yet when we will be able to deliver this integration but developers here in Belgium and the US have proven the concept and are working already on the actual solution", added the Microsoft chairman.

"This is something we are going to support very aggressively in Microsoft software".

The announcement was made by Bill Gates along with the Belgian State Secretary for e-Government, Peter Vanvelthoven, in front of an audience of Belgian government and IT officials at Brussels, last week.

This late announcement by the Microsoft Chairman confirms the strong eID engagement of Microsoft whose Belgian subsidiary already launched several eID initiatives, in collaboration with the Belgian public authorities as well as with 2 main sponsors, namely Certipost and ZETES, the main contractor (production, personalisation and distribution) and global coordinator for the Belgian eID card project.

A great momentum

"As main industry partner of the Belgian government in this eID project, ZETES welcomes the new eID announcement made by Microsoft chairman, Bill Gates" says Alain Wirtz, CEO of the ZETES Group.

"In 2004, ZETES already contributed to eID Awareness campaign organised by Microsoft Belgium" adds Alain Wirtz. "As system integrator, we also partnered the Microsoft eID Early Adopters Program (EAP) for which ZETES and KPMG were honoured by a "Microsoft eID Project - Business Impact Award" during the last e-Governement Congress held in Brussels on December 2004 (see our related News at http://www.zetes.com/belgium/english/dynamic/home.cfm).

"ZETES is now partnering with Microsoft Belgium in the context of the eID promotion campaign recently launched by Microsoft (http://www.microsoft.com/Belux/default.asp).

"In the same way, ZETES is open to any other eID partnership and to support any initiative that can help to bring new applications and new benefits to Belgian citizens, enterprises and administrations, and to make the Belgian eID project a great momentum at both local and international levels", concludes Alain Wirtz.

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