



Interim report for the
six months to 31 March
2008



Business overview

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

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

Operating from three modern factories near Newcastle-upon-Tyne in England, Zytronic assembles touch sensors and filters, utilising special glass and plastic materials, in environmentally controlled clean rooms.

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Highlights

- Group turnover of £6.99m showed growth of 17% (2007 restated: £5.96m)
- Encouraging growth in sales of recently introduced ZYPOS® touch sensors
- Group operating profit increased 50% to £736,000 (2007 restated: £490,000)
- Profit before tax increased 45% to £666,000 (2007 restated: £458,000)
- EPS increased 27% to 3.3p (2007 restated: 2.6p)
- Mark Cambridge promoted to CEO in January 2008
- New capacity for ZYPOS® production fully operational

Turnover (£'000)		
H1 2008⁽¹⁾		6,993
H1 2007 ⁽¹⁾		5,960
H1 2006		5,670
H1 2005		5,112
H1 2004		3,853

Gross profit margin (%)		
H1 2008⁽¹⁾		31.1
H1 2007 ⁽¹⁾		31.4
H1 2006		29.7
H1 2005		32.2
H1 2004		27.8

Operating profit ("PBIT") (£'000)		
H1 2008⁽¹⁾		736
H1 2007 ⁽¹⁾		490
H1 2006		456
H1 2005		444
H1 2004		(62)

Earnings per share ("EPS") (Pence)		
H1 2008⁽¹⁾		3.3
H1 2007 ⁽¹⁾		2.6
H1 2006		2.3
H1 2005		2.1
H1 2004		(0.3)

⁽¹⁾ The figures shown are for the first half of each financial year. 2007 and 2008 results are on the basis of IFRS whereas 2004 – 2006 results are based on UK GAAP.

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Chairman's statement

Summary of

Chairman's statement

- **First time implementation of IFRS**
- **Group turnover of £6.99m increased by 17%**
- **Group operating profit increased by 50% to £736,000**
- **Profit before tax of £666,000 increased by 45%**
- **Basic EPS increased by 27%**
- **Proposed interim dividend of 1.0p**
- **Mark Cambridge promoted to CEO in January 2008**
- **New capacity for Zypos® production fully operational in January 2008**
- **Encouraging growth in sales of recently introduced Zypos® touch sensors**
- **Leading global supplier of display systems signed as distributor for Zypos into gaming industry**

Results

These interim results have been prepared to the new International Financial Reporting Standards ("IFRS") and consequently the comparative numbers for 2007 have been restated.

Sales grew by 17% over the corresponding period last year at £6.99m (2007: £5.96m). This higher level of sales led to an increase of 50% in operating profit to £736,000 (2007: £490,000) and pre-tax profits increased by 45% to £666,000 (2007: £458,000). The estimated tax rate has increased to 27% (2007: 17%) and this has impacted on the growth in earnings per share which has increased by 27% to 3.3p (2007: 2.6p).

Trading

Sales at £6.99m, of which 73% are exports, have grown by 17% over 2007. This growth is spread evenly between touchscreen products and other products within the Group's portfolio. In my statement in December 2007, I mentioned the difficulties that had been experienced in the ATM sector with the introduction of vendor managed inventory control systems. This resulted in a reduction of sales in this sector, the primary impact being in the second half of last year. We have experienced a return to more normal levels in the ATM sector and the indications are that this will continue.

Whilst overall sales growth has been relatively modest, the new orders received in this period for touchscreen products has grown by 44% over the corresponding period last year. This growth in new orders comes from a range of blue chip customers in the information, kiosk, self service, ticketing and, more importantly, gaming sector and will have significant impact in the second half.

The new ZYPOS® manufacturing facility became fully operational in January. The new equipment for automated laminating and laser soldering has been successfully commissioned and will provide substantial cost savings as volumes increase.

The ZYPOS® product was exhibited by several of our gaming customers at the International Casino Exhibition and associated tradeshow in London in January 2008. Subsequently our operating subsidiary, Zyrtronic Displays Limited, has signed as a distributor American Gaming and Electronics Inc, a subsidiary of Wells-Gardner Electronics Corporation, which is the leading global supplier of display systems into the gaming

industry. I look forward to this new relationship further increasing our presence in this sector.

Dividend

The Directors have declared an interim dividend of 1.0p per share (2007: 1.0p per share) payable on 27 June 2008 to shareholders on the Register on 13 June 2008.

Management

I am pleased to advise that Mark Cambridge was appointed to the position of Chief Executive Officer on 21 January 2008. Mark joined the Company in 1991 and has held various positions within the Group, being appointed Managing Director of the trading subsidiary in February 2006 and to the Zyrtronic plc Board in June 2007. I am sure Mark will be very successful in his new role.

Outlook

The introduction of ZYPOS® has played a significant part in the growth of 44% of new touchscreen business written in the first half. The successful commissioning of the new manufacturing facilities will have a significant impact on manufacturing costs over the coming years. These, combined with the return to more normal trading levels within the ATM market and the low level of reliance on the UK market with over 70% of sales exported, give the Directors continuing confidence in the growth in both sales and profitability going forward.

J M Kennair MBE
Chairman
29 May 2008

Consolidated income statement

unaudited results for the six months to 31 March 2008

	Notes	Six months to 31 March 2008 Unaudited £'000	Restated Six months to 31 March 2007 Unaudited £'000	Restated Year to 30 September 2007 Audited £'000
Group revenue		6,993	5,960	11,437
Cost of sales		4,820	4,090	7,971
Gross profit		2,173	1,870	3,466
Distribution costs		101	108	197
Administration costs		1,348	1,288	2,556
		1,449	1,396	2,753
Group operating profit		724	474	713
Other operating income		12	16	36
Group operating profit from continuing operations		736	490	749
Finance costs		(75)	(38)	(73)
Finance revenue		5	6	7
Profit before taxation		666	458	683
Taxation	3	(182)	(77)	(149)
Profit for the period from continuing operations		484	381	534
Earnings per share				
Earnings per share – basic	4	3.3p	2.6p	3.6p
Earnings per share – diluted	4	3.3p	2.6p	3.6p

Statement of total recognised income and expense

unaudited accounts for the six months to 31 March 2008

	At 31 March 2008 Unaudited £'000	Restated At 31 March 2007 Unaudited £'000	Restated At 30 September 2007 Audited £'000
Income and expense recognised directly in equity			
Deferred tax on share-based payments	13	(11)	(52)
Net income recognised directly in equity	13	(11)	(52)
Profit for the period	484	381	534
Total recognised income and expense for the period	497	370	482

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Consolidated balance sheet

unaudited results at 31 March 2008

	At 31 March 2008 Unaudited £'000	Restated At 31 March 2007 Unaudited £'000	Restated At 30 September 2007 Audited £'000
Assets			
Non-current assets			
Property, plant and equipment	5,334	3,918	5,208
Intangible assets	2,106	2,104	2,122
Trade and other receivables	235	—	194
	7,675	6,022	7,524
Current assets			
Inventories	1,891	1,871	1,828
Trade and other receivables	2,937	2,586	2,767
Cash and short term deposits	563	403	317
	5,391	4,860	4,912
Total assets	13,066	10,882	12,436
Equity and liabilities			
Current liabilities			
Trade and other payables	1,339	812	1,376
Financial liabilities	843	312	621
Accruals and deferred income	503	494	399
Taxation liabilities	108	—	—
	2,793	1,618	2,396
Non-current liabilities			
Interest bearing loans and borrowings	1,293	624	1,340
Deferred tax liabilities	542	432	479
	1,835	1,056	1,819
Total liabilities	4,628	2,674	4,215
Net assets	8,438	8,208	8,221
Capital and reserves			
Equity share capital	147	146	147
Share premium	6,473	6,450	6,473
Revenue reserve	1,818	1,612	1,601
Equity shareholders' funds	8,438	8,208	8,221

Group cashflow statement

unaudited results for the six months to 31 March 2008

	Six months to 31 March 2008 Unaudited £'000	Restated Six months to 31 March 2007 Unaudited £'000	Restated Year to 30 September 2007 Audited £'000
Operating activities			
Group operating profit	736	490	749
<i>Adjustments to reconcile group operating profit to net cash inflows from operating activities</i>			
Depreciation of property, plant and equipment	268	243	490
Amortisation of intangible assets	159	128	248
Share-based payments	14	23	46
Gain on sale of property, plant and equipment	—	—	(1)
Increase in inventories	(63)	(165)	(122)
(Increase)/decrease in trade and other receivables	(224)	306	(96)
Increase/(decrease) in trade and other payables	67	(328)	34
Cash generated from operations	957	697	1,348
Taxation repayment/(paid)	13	11	(29)
Net cashflow from operating activities	970	708	1,319
Investing activities			
Interest received	5	6	7
Sale of property, plant and equipment	—	—	1
Purchases of property, plant and equipment	(394)	(459)	(1,901)
Payments to acquire intangible assets	(143)	(77)	(202)
Net cashflow from investing activities	(532)	(530)	(2,095)
Financing activities			
Interest paid	(75)	(38)	(73)
Dividends paid to equity shareholders of the parent	(293)	(293)	(439)
Proceeds from share issues	—	—	24
New borrowings	139	—	1,123
Repayment of borrowings	(62)	(71)	(134)
Repayment of capital element of finance leases and hire purchase contracts	(16)	(78)	(78)
Net cashflow from financing activities	(307)	(480)	423
Increase/(decrease) in cash and cash equivalents	131	(302)	(353)
Cash and cash equivalents at the beginning of the year	140	493	493
Cash and cash equivalents at the year end	271	191	140

Notes to the interim report

unaudited results for the six months to 31 March 2008

1. Basis of preparation

The financial information in these interim statements is prepared under the historical cost convention and in accordance with international accounting standards. It does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The financial information for the full preceding year has been based on the statutory accounts for the year to 30 September 2007 as restated for the implementation of IFRS accounting standards. The details of the restatement of the results for the year ended 30 September 2007 and the six months ended 31 March 2007 are contained in the Group's formal transition document which has been delivered to the Registrar of Companies. A copy of the transition document is also on the Company's website, www.zytronic.co.uk.

The taxation charge is calculated by applying the Directors' best estimate of the annual tax rate to the profit for the period. Other expenses are accrued in accordance with the same principles used in the preparation of the annual accounts.

The interim results for the period to 31 March 2008 are not reviewed by Ernst & Young LLP and accordingly no opinion has been given.

2. Basis of consolidation

The Group results consolidate the accounts of Zytronic plc and all its subsidiary undertakings drawn up to 31 March 2008.

3. Tax charge on profit on ordinary activities

The estimated tax rate for the year of 27% has been applied to the half year's profit before tax, in accordance with the ASB's statement on interim reports.

4. Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the period. All activities are continuing operations and therefore there is no difference between EPS arising from total operations and EPS arising from continuing operations.

	Earnings 31 March 2008 £'000	Weighted average number of shares 31 March 2008 Thousands	Earnings per share 31 March 2008 Pence	Restated Earnings 31 March 2007 £'000	Weighted average number of shares 31 March 2007 Thousands	Restated Earnings per share 31 March 2007 Pence
Profit on ordinary activities after taxation attributable to ordinary equity holders	484	14,662	3.3	381	14,640	2.6
Basic EPS	484	14,662	3.3	381	14,640	2.6

4. Earnings per share (continued)

The weighted average number of shares for diluted EPS is calculated by including the weighted average number of shares under option:

	Earnings 31 March 2008 £'000	Weighted average number of shares 31 March 2008 Thousands	Earnings per share 31 March 2008 Pence	Restated Earnings 31 March 2007 £'000	Weighted average number of shares 31 March 2007 Thousands	Restated Earnings per share 31 March 2007 Pence
Profit on ordinary activities after taxation attributable to ordinary equity holders	484	14,662	3.3	381	14,640	2.6
Weighted average number of shares under option	—	124	—	—	196	—
Diluted EPS	484	14,786	3.3	381	14,836	2.6

	Restated Earnings 30 September 2007 £'000	Weighted average number of shares 30 September 2007 Thousands	Restated Earnings per share 30 September 2007 Pence
Profit on ordinary activities after taxation attributable to ordinary equity holders	534	14,640	3.6
Basic EPS	534	14,640	3.6

The weighted average number of shares for diluted EPS is calculated by including the weighted average number of shares under option:

	Restated Earnings 30 September 2007 £'000	Weighted average number of shares 30 September 2007 Thousands	Restated Earnings per share 30 September 2007 Pence
Profit on ordinary activities after taxation attributable to ordinary equity holders	534	14,640	3.6
Weighted average number of shares under option	—	147	—
Diluted EPS	534	14,787	3.6

Notes to the interim report continued

unaudited results for the six months to 31 March 2008

5. Dividends

The Directors propose the payment of an interim dividend of 1.0p per share (2007: 1.0p), payable on 27 June 2008 to shareholders on the Register on 13 June 2008. This dividend has not been accrued in these interim accounts. The dividend payment will be £146,000.

The dividends in the current and prior year are as follows:

	Six months to 31 March 2008 Unaudited £'000	Six months to 31 March 2007 Unaudited £'000	Year to 30 September 2007 Audited £'000
Ordinary dividends on equity shares			
Final dividend of 2.0p per ordinary share paid on 16 March 2007	—	293	293
Interim dividend of 1.0p per ordinary share paid on 29 June 2007	—	—	146
Final dividend of 2.0p per ordinary share paid on 7 March 2008	293	—	—
	293	293	439

6. Notes to the statement of Group cashflows

	Six months to 31 March 2008 Unaudited £'000	Six months to 31 March 2007 Unaudited £'000	Year to 30 September 2007 Audited £'000
Cash at bank and in hand	563	403	317
	563	403	317

Cash at bank earns interest at floating rates based on daily bank deposit rates.

The fair value of cash and cash equivalents is £271,000 (2007: £191,000).

At 31 March 2008, the Group had available £3.2m (2007: £1.3m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. £1.2m (2007: £1.3m) of these facilities fall for review within one year and the remainder is available until 30 June 2010.

For the purpose of the consolidated cashflow statement, cash and cash equivalents comprise the following:

	Six months to 31 March 2008 Unaudited £'000	Six months to 31 March 2007 Unaudited £'000	Year to 30 September 2007 Audited £'000
Cash at bank and in hand	563	403	317
Bank overdraft	(292)	(212)	(177)
	271	191	140

Corporate information

Board of Directors
John Martin Kennair MBE
Chairman

Mark Cambridge B.Sc
Chief Executive Officer

Denis Gerald Wilson Mullan B.Sc, FCA
Finance Director

Tudor Griffith Davies B.Sc
Senior Independent Non-executive Director

Sir David Robert Macgowan Chapman Bt., DL, B Comm
Independent Non-executive Director

David Eric Banks MA (Cantab), FCA
Non-executive Director and Deputy Chairman

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