



Zytronic plc
interim report for the six months to 31 March 2010

**innovation.
customers.
products.**



CORPORATE STATEMENT

Zytronic is the developer and manufacturer of a unique range of internationally award-winning touch sensor products. These products employ an embedded sensing element and are based on projected capacitive technology (“PCT™”). PCT offers significant durability, environmental stability and optical enhancement benefits to system designers of integrated electronic displays, beyond that which was previously attainable.

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

Operating from three modern factories near Newcastle-upon-Tyne in the UK, Zytronic assembles touch sensors, optical filters and other laminates, using special glass and plastic materials, in environmentally controlled clean rooms.

OUR YEAR TO DATE

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HIGHLIGHTS

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- Group revenue increased by 3% to £8.2m (2009: £8.0m)
-
- Export sales increased to 89% (2009: 86%)
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- Orders increased by 16% to £9.7m (2009: £8.4m)
-
- Group operating profit increased by 3% to £1.12m (2009: £1.09m)
-
- Profit before tax increased by 1% to £1.06m (2009: £1.05m)
-
- EPS increased by 4% to 5.4p (2009: 5.2p)
-
- Interim dividend increased by 67% to 2.0p per share (2009: 1.2p)
-
- Gearing reduced to 27% (30 September 2009: 31%)
-
- Grant instalment of £0.5m, received on 6 May 2010, will further reduce gearing
-

CHAIRMAN'S STATEMENT

I am pleased to report to you on the results for the six months ended 31 March 2010. Against the background of continued volatility in world markets, the Group's turnover and profit have shown a modest increase over the corresponding period last year. New orders written have shown a healthy growth of 16% in this period.

RESULTS

Sales grew by 3% to £8.2m (2009: £8.0m) with operating profits also growing by 3% to £1.12m (2009: £1.09m). Pre-tax profits have increased to £1.06m (2009: £1.05m).

TRADING

A substantial rise in sales to the self service and kiosk markets, coupled with increased sales to other markets, has more than offset a decrease in sales to the gaming industry, which has been particularly hard hit by the recession.

Exports accounted for 89% (2009: 86%) of the Group's sales. With fewer exports denominated in foreign currency, the impact of exchange rate movements on the results is less beneficial than in the same period last year.

Growth in new orders of 16% over the corresponding period last year to £9.7m (2009: £8.4m) is without benefit from two large areas of new business, Coca Cola Freestyle™ drinks fountains and

sales to the white goods sector, which are expected to commence production in September of this year. Whilst it is difficult to forecast accurately due to the extraordinary volatility in markets both industrial and geographical, these factors bode well for trading in the second half and through into 2011.

CASH

The Group continues to generate significant cash from its trading activities with the gearing ratio falling to 27% at 31 March 2010, compared with 31% at 30 September 2009. As reported on 5 May, the Group was awarded a government grant of £0.5m against the substantial investment in the new ZYPOS® manufacturing facilities. This grant payment, received on 6 May 2010, will further reduce gearing.

DIVIDEND

The Directors have declared an interim dividend of 2.0p per share (2009: 1.2p per share) payable on 25 June 2010 to shareholders on the Register at 11 June 2010.

MANAGEMENT

The financial strength of the Group, combined with the growth of the order book in recent years, clearly demonstrates the capabilities of our management team, ably led by Mark Cambridge (CEO). I believe that the Group is now better placed than at any time in

its history and, accordingly, I feel that this is an appropriate time to hand over the Chairmanship of the Company. I have served in the role of either Chief Executive or Chairman for the past 35 years and would like to express my appreciation to all the employees and Directors of the Company, both past and present, and to you the shareholders for the loyalty and support I have received. The Board has invited me, and I have agreed, to stay on as a Non-executive Director.

The Directors have agreed that David Banks, who joined the Group in 2000, initially as Finance Director, and has served as Deputy Chairman for the past three years, will step into the role of Chairman on 1 July 2010. I wish him every success for the future.

OUTLOOK

The strength and vitality of our management team, combined with the continued strong growth in the order book, give the Directors confidence in the continued improvement of the Group's trading performance going forward.

JOHN KENNAIR, MBE
CHAIRMAN
26 May 2010

CONSOLIDATED INCOME STATEMENT

UNAUDITED RESULTS FOR THE SIX MONTHS TO 31 MARCH 2010

	Notes	Six months to 31 March 2010 Unaudited £'000	Six months to 31 March 2009 Unaudited £'000	Year to 30 September 2009 Audited £'000
Group revenue		8,199	7,982	15,921
Cost of sales		5,599	5,313	10,514
Gross profit		2,600	2,669	5,407
Distribution costs		105	112	183
Administration expenses		1,386	1,478	2,850
Group trading profit		1,109	1,079	2,374
Other operating income		13	12	20
Group operating profit from continuing operations		1,122	1,091	2,394
Finance costs		(65)	(40)	(98)
Finance revenue		6	1	4
Profit from continuing operations		1,063	1,052	2,300
Tax expense	3	(276)	(281)	(593)
Profit for the period from continuing operations		787	771	1,707
Earnings per share				
Earnings per share – basic	4	5.4p	5.2p	11.6p
Earnings per share – diluted	4	5.3p	5.2p	11.5p

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED INCOME AND EXPENSE

UNAUDITED RESULTS FOR THE SIX MONTHS TO 31 MARCH 2010

	Six months to 31 March 2010 Unaudited £'000	Six months to 31 March 2009 Unaudited £'000	Year to 30 September 2009 Audited £'000
Income and expense recognised directly in equity			
Deferred tax recognised directly in equity	32	(13)	(4)
Net income/(expense) recognised directly in equity	32	(13)	(4)
Profit for the period	787	771	1,707
Total recognised income and expense for the period	819	758	1,703

CONSOLIDATED BALANCE SHEET

UNAUDITED RESULTS AT 31 MARCH 2010

	At 31 March 2010 Unaudited £'000	At 31 March 2009 Unaudited £'000	At 30 September 2009 Audited £'000
Assets			
Non-current assets			
Intangible assets	1,886	2,012	1,974
Property, plant and equipment	8,443	5,155	8,375
Trade and other receivables	283	210	210
	10,612	7,377	10,559
Current assets			
Inventories	2,490	2,538	2,503
Trade and other receivables	3,191	2,544	3,110
Cash and short term deposits	458	1,232	739
	6,139	6,314	6,352
Total assets	16,751	13,691	16,911
Equity and liabilities			
Current liabilities			
Trade and other payables	1,527	909	1,306
Financial liabilities	1,029	797	1,442
Accruals and deferred income	569	465	574
Taxation liabilities	267	623	300
	3,392	2,794	3,622
Non-current liabilities			
Financial liabilities	2,206	799	2,428
Deferred tax liabilities (net)	788	829	820
Government grants	37	49	43
	3,031	1,677	3,291
Total liabilities	6,423	4,471	6,913
Net assets	10,328	9,220	9,998
Capital and reserves			
Equity share capital	147	147	147
Share premium	6,526	6,479	6,479
Revenue reserve	3,655	2,594	3,372
Total equity	10,328	9,220	9,998

CONSOLIDATED CASHFLOW STATEMENT

UNAUDITED RESULTS FOR THE SIX MONTHS TO 31 MARCH 2010

	Notes	Six months to 31 March 2010 Unaudited £'000	Six months to 31 March 2009 Unaudited £'000	Year to 30 September 2009 Audited £'000
Operating activities				
Profit before tax		1,063	1,052	2,300
Net interest expense		59	39	94
Depreciation of property, plant and equipment		346	338	613
Amortisation of intangible assets		143	122	307
Amortisation of government grant		(6)	(6)	(12)
Share-based payments		21	20	29
Gain on sale of property, plant and equipment		—	(1)	—
Decrease/(increase) in inventories		13	(42)	(7)
(Increase)/decrease in trade and other receivables		(156)	495	(59)
Decrease in trade and other payables		(57)	(615)	(137)
Cash generated from operations		1,426	1,402	3,128
Taxation paid		(307)	—	(646)
Net cashflow from operating activities		1,119	1,402	2,482
Investing activities				
Interest received		6	1	4
Sale of property, plant and equipment		—	1	—
Purchases of property, plant and equipment		(158)	(199)	(3,673)
Payments to acquire intangible assets		(55)	(76)	(223)
Net cashflow from investing activities		(207)	(273)	(3,892)
Financing activities				
Interest paid		(47)	(43)	(94)
Dividends paid to equity shareholders of the parent		(558)	(440)	(616)
Proceeds from share issue re. options		16	—	—
Recovery of written-off VAT re. AIM admission expense		32	—	—
New borrowings		—	—	2,217
Repayment of borrowings		(189)	(51)	(163)
Repayment of capital element of hire purchase contracts		(238)	(238)	(476)
Net cash (outflow)/inflow from financing activities		(984)	(772)	868
(Decrease)/increase in cash and cash equivalents		(72)	357	(542)
Cash and cash equivalents at the beginning of the period		109	651	651
Cash and cash equivalents at the period end	6	37	1,008	109

NOTES TO THE INTERIM REPORT

UNAUDITED RESULTS FOR THE SIX MONTHS TO 31 MARCH 2010

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 435 of the Companies Act 2006 and does not reflect all the information contained in the Group's annual report and financial statements.

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 six months to 31 March 2010 are not reviewed by Ernst & Young LLP and accordingly no opinion has been given.

The interim financial statements have been prepared using the same accounting policies and methods of computation used to prepare the 2009 annual report and financial statements.

The financial information for the six months to 31 March 2010 and the comparative financial information for the six months to 31 March 2009 has not been audited. The comparative financial information for the year ended 30 September 2009 has been extracted from the 2009 annual report and financial statements.

The annual financial statements for the year ended 30 September 2009, which were approved by the Board of Directors on 8 December 2009, received an unqualified audit report, did not contain a statement under Section 498(2) or (3) of the Companies Act 2006 and have been filed with the Registrar of Companies.

The Group has one reportable business segment comprising the development and manufacture of customised optical filters to enhance electronic display performance. Products in this reportable business segment include touch sensors, filters and other laminated products. All revenue, profits or losses before tax and net assets are attributable to this reportable business segment.

2. BASIS OF CONSOLIDATION

The Group results consolidate the accounts of Zytronic plc and all its subsidiary undertakings drawn up to 31 March 2010.

3. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

The estimated tax rate for the year of 26% 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.

FOR THE SIX MONTHS TO 31 MARCH 2010 AND 2009

	Earnings 31 March 2010 £'000	Weighted average number of shares 31 March 2010 Thousands	Earnings per share 31 March 2010 Pence	Earnings 31 March 2009 £'000	Weighted average number of shares 31 March 2009 Thousands	Earnings per share 31 March 2009 Pence
Profit on ordinary activities after taxation attributable to ordinary equity holders	787	14,689	5.4	771	14,674	5.2
Basic EPS	787	14,689	5.4	771	14,674	5.2

4. EARNINGS PER SHARE CONTINUED

FOR THE SIX MONTHS TO 31 MARCH 2010 AND 2009 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 2010 £'000	Weighted average number of shares 31 March 2010 Thousands	Earnings per share 31 March 2010 Pence	Earnings 31 March 2009 £'000	Weighted average number of shares 31 March 2009 Thousands	Earnings per share 31 March 2009 Pence
Profit on ordinary activities after taxation attributable to ordinary equity holders	787	14,689	5.4	771	14,674	5.2
Weighted average number of shares under option	—	115	(0.1)	—	42	—
Diluted EPS	787	14,804	5.3	771	14,716	5.2

FOR THE YEAR TO 30 SEPTEMBER 2009

	Earnings 30 September 2009 £'000	Weighted average number of shares 30 September 2009 Thousands	Earnings per share 30 September 2009 Pence
Profit on ordinary activities after taxation attributable to ordinary equity holders	1,707	14,674	11.6
Basic EPS	1,707	14,674	11.6

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

	Earnings 30 September 2009 £'000	Weighted average number of shares 30 September 2009 Thousands	Earnings per share 30 September 2009 Pence
Profit on ordinary activities after taxation attributable to ordinary equity holders	1,707	14,674	11.6
Weighted average number of shares under option	—	79	(0.1)
Diluted EPS	1,707	14,753	11.5

5. DIVIDENDS

The Directors propose the payment of an interim dividend of 2.0p per share (2009: 1.2p), payable on 25 June 2010 to shareholders on the Register on 11 June 2010. This dividend has not been accrued in these interim accounts. The dividend payment will be £294,000.

NOTES TO THE INTERIM REPORT CONTINUED

UNAUDITED RESULTS FOR THE SIX MONTHS TO 31 MARCH 2010

5. DIVIDENDS CONTINUED

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

	Six months to 31 March 2010 Unaudited £'000	Six months to 31 March 2009 Unaudited £'000	Year to 30 September 2009 Audited £'000
Ordinary dividends on equity shares			
Final dividend of 3.0p per ordinary share paid on 9 March 2009	—	440	440
Interim dividend of 1.2p per ordinary share paid on 26 June 2009	—	—	176
Final dividend of 3.8p per ordinary share paid on 26 February 2010	558	—	—
	558	440	616

6. NOTES TO THE STATEMENT OF CONSOLIDATED CASHFLOWS

	Six months to 31 March 2010 Unaudited £'000	Six months to 31 March 2009 Unaudited £'000	Year to 30 September 2009 Audited £'000
Cash at bank and in hand	458	1,232	739

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

	Six months to 31 March 2010 Unaudited £'000	Six months to 31 March 2009 Unaudited £'000	Year to 30 September 2009 Audited £'000
Cash at bank and in hand	458	1,232	739
Bank overdraft	(421)	(224)	(630)
	37	1,008	109

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

The fair value of cash and cash equivalents is £37,000 (2009: £1.0m).

At 31 March 2010, the Group had available £2.6m (2009: £3.3m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. Of these facilities, £0.6m (2009: £1.3m) fall for review within one year and the remainder is available until 30 June 2012.

7. POST BALANCE SHEET EVENT

Grant receipt by Zytronic plc and Zytronic Displays Limited (the "Zytronic Group").

On 5 May 2010, Zytronic plc announced to the London Stock Exchange that the Zytronic Group had been awarded a second and final payment of £540,000 under the Selective Finance for Investment ("SFI") grant scheme.

The grant has been given to the Zytronic Group in relation to the development of its ZYPOS project, commenced in mid-2005, to create and staff a new manufacturing facility for its then recently launched ZYPOS touch sensor products. The refurbishment and equipping of the manufacturing facility, of nearly 20,000 square feet, which was completed in 2008, has enabled Zytronic Displays Limited to increase production volumes of its touch sensor products.

The first instalment of the grant, of £60,000, was received in March 2008. This second and final instalment will be amortised over the period to 31 March 2013, in line with both the first instalment and the Zytronic Group's accounting policy on government grants.

The payment was received on 6 May 2010 from One North East, the local Regional Development Agency.

CORPORATE INFORMATION

BOARD OF DIRECTORS

JOHN MARTIN KENNAIR, MBE

Chairman

MARK CAMBRIDGE, B.SC

Chief Executive

**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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