

INNOVATION. TECHNOLOGY. CUSTOMERS.

Interim report for the six months to 31 March 2011



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.

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HIGHLIGHTS

Revenue increased by 11% to £9.1m (2010: £8.2m)

Touch sensor sales now 66% of total sales (2010: 56%)

Sales revenues from touch sensors increased by 29%

Profit before tax increased by 19% to £1.3m (2010: £1.1m)

Earnings per share ("EPS") increased by 19% to 6.4p (2010: 5.4p)

Interim dividend increased by 5% to 2.1p per share (2010: 2.0p)

Tudor Davies appointed Chairman on 4 March 2011

CHAIRMAN'S STATEMENT

Following my recent appointment as Chairman on 4 March 2011, it is pleasing to be able to present a set of interim results showing such positive progress for the six months ended 31 March 2011.

The 18% increase in operating profits is a good result and particularly since it has arisen from the continuing worldwide rollout of the Group's touch sensor products which now represent 66% of total revenues.

RESULTS

Revenues increased by 11% to £9.1m (2010: £8.2m); operating profits increased by 18% to £1.3m (2010: £1.1m); profit before taxation increased by 19% to £1.3m (2010: £1.1m); and, after taxation of 26%, resulted in profits after taxation of £0.9m (2010: £0.8m); and an increase in earnings per share of 19% to 6.4p (2010: 5.4p).

TRADING

The strategy of the Group for several years has been to grow through the development and market acceptance of our ZYPOS® and ZYBRID® touch sensor products, and diversify away from the traditional lower growth electronic display products. These results are driven by our continuing progress in the development of this strategy.

TOUCH SENSORS

In the last six months the revenues from touch sensors have risen from 56% to 66% of sales and, compared with the same period last year, orders received have increased by 36% and sales have increased by 29%, reflecting the growth in applications for our products across several geographic regions.

Our products are rugged compared with most touch sensor products and are generally suitable for outdoor and high use environments such as: ATMs, self-service and vending, ticketing and parking, gaming and entertainment,

digital signage, industrial automation, and home automation.

We have experienced good growth in the supply of touch sensors for the Coca Cola Freestyle™ vending machines and from Bosch und Siemens Hausgeräte ("BSH") for its new Gaggenau induction cooktop. Other notable areas of increased sales have been in digital signage and we have also experienced a rebound in sales to the previously depressed gaming and entertainment market.

It is particularly pleasing that the majority of this growth has resulted from our strategy to develop sales over wider geographical areas through the appointment of Value Added Resellers ("VAR"). These successes have resulted in this sales channel increasing its proportion of sales from 27% to 35%.

The two ZYPOS laminators recently purchased in the period were installed and commissioned in December and January respectively. This added much needed increased capacity and efficiency to meet the increasing growth in touch sensor sales, and particularly to assist in efficiently manufacturing the larger 32" to 65" touch sensors required to service the digital signage and vending markets.

ELECTRONIC DISPLAY PRODUCTS

In the ATM market, the anticipated changes in product cycles and designs have resulted in lower sales in this period and, as expected, sales of our lower growth electronic display products have reduced by 18%.

FINANCIAL LIABILITIES/CASH GENERATION

The Group has cash and short term deposits of £2.1m and current financial liabilities of £1.6m, representing a current net financial asset position as at 31 March 2011 of £0.5m. The Group also has non-current financial liabilities of £1.9m, being mortgages on our freehold

properties over ten year terms. The overall position at 31 March 2011 is gearing of 12% and net financial liabilities of £1.5m compared with gearing of 11% and net financial liabilities of £1.2m at the 30 September 2010 year end.

The Group generated £1.1m cash from operating activities in the six months ended 31 March 2011: it invested £0.5m in capital expenditure, principally the laminators and, after it incurred debt service costs of £0.3m, generated £0.3m before the payment of the £0.7m final dividend for last year.

DIVIDEND

The Directors have declared an interim dividend of 2.1p per share (2010: 2.0p per share) payable on Friday 29 July 2011 to shareholders on the Register on Friday 15 July 2011.

BOARD

I was appointed Chairman of the Board in succession to David Banks on 4 March 2011.

Both I and the rest of the Board would like to express our thanks to both John Kennair, the Company's founder, who retired on 10 February 2011, and David Banks, who had been a Director since flotation, for their significant contributions to the development and progress of the Group over nearly eleven years.

OUTLOOK

The increasing acceptance of our touch sensors across an expanding number of geographic regions and applications, and the current healthy inflow of orders, provides a good platform for continuing growth and shareholder value.

TUDOR DAVIES
CHAIRMAN
11 MAY 2011

CONSOLIDATED INCOME STATEMENT

UNAUDITED RESULTS FOR THE SIX MONTHS TO 31 MARCH 2011

	Notes	Six months to 31 March 2011 Unaudited £'000	Six months to 31 March 2010 Unaudited £'000	Year to 30 September 2010 Audited £'000
Group revenue		9,092	8,199	18,483
Cost of sales		6,172	5,599	12,589
Gross profit		2,920	2,600	5,894
Distribution costs		119	105	231
Administration expenses		1,574	1,386	2,738
Group trading profit		1,227	1,109	2,925
Other operating income		93	13	112
Group operating profit from continuing operations		1,320	1,122	3,037
Finance costs		(55)	(65)	(126)
Finance revenue		—	6	13
Profit from continuing operations		1,265	1,063	2,924
Tax expense	3	(329)	(276)	(736)
Profit for the period from continuing operations		936	787	2,188
Earnings per share				
Basic	4	6.4p	5.4p	14.9p
Diluted	4	6.3p	5.3p	14.8p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

UNAUDITED RESULTS FOR THE SIX MONTHS TO 31 MARCH 2011

There are no recognised gains or losses other than the profit attributable to shareholders of the Company as presented in the consolidated income statement above.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS TO 31 MARCH 2011

	Called up share capital* £'000	Share premium** £'000	Retained earnings £'000	Total £'000
At 30 September 2010	147	6,550	4,755	11,452
Profit for the period	—	—	936	936
Share based payments	—	—	21	21
Dividends	—	—	(735)	(735)
At 30 March 2011 (unaudited)	147	6,550	4,977	11,674

* Share capital represents proceeds on issue of the Company's equity share capital.

** Share premium comprises the excess in proceeds on issue of the Company's equity share capital above the nominal value of the shares issued.

CONSOLIDATED BALANCE SHEET

UNAUDITED RESULTS AT 31 MARCH 2011

	At 31 March 2011 Unaudited £'000	At 31 March 2010 Unaudited £'000	At 30 September 2010 Audited £'000
Assets			
Non-current assets			
Intangible assets	1,839	1,886	1,869
Property, plant and equipment	8,429	8,443	8,387
Trade and other receivables	198	283	198
	10,466	10,612	10,454
Current assets			
Inventories	2,654	2,490	2,588
Trade and other receivables	3,831	3,191	3,466
Cash and short term deposits	2,070	458	1,505
	8,555	6,139	7,559
Total assets	19,021	16,751	18,013
Equity and liabilities			
Current liabilities			
Trade and other payables	1,544	1,527	1,582
Financial liabilities	1,616	1,029	669
Accruals and deferred income	743	569	600
Taxation liabilities	351	267	357
Government grants	192	—	192
	4,446	3,392	3,400
Non-current liabilities			
Financial liabilities	1,881	2,206	2,045
Deferred tax liabilities (net)	827	788	827
Government grants	193	37	289
	2,901	3,031	3,161
Total liabilities	7,347	6,423	6,561
Net assets	11,674	10,328	11,452
Capital and reserves			
Equity share capital	147	147	147
Share premium	6,795	6,526	6,550
Revenue reserve	4,732	3,655	4,755
Total equity	11,674	10,328	11,452

CONSOLIDATED CASHFLOW STATEMENT

UNAUDITED RESULTS FOR THE SIX MONTHS TO 31 MARCH 2011

	Notes	Six months to 31 March 2011 Unaudited £'000	Six months to 31 March 2010 Unaudited £'000	Year to 30 September 2010 Audited £'000
Operating activities				
Profit before tax		1,265	1,063	2,924
Net interest expense		55	59	113
Depreciation of property, plant and equipment		358	346	654
Amortisation of intangible assets		140	143	333
Amortisation of government grant		(96)	(6)	(102)
Share-based payments		21	21	42
(Increase)/decrease in inventories		(66)	13	(85)
Increase in trade and other receivables		(366)	(156)	(356)
Increase/(decrease) in trade and other payables		101	(57)	279
Cash generated from operations		1,412	1,426	3,802
Taxation paid		(335)	(307)	(655)
Net cashflow from operating activities		1,077	1,119	3,147
Investing activities				
Interest received		—	6	13
Receipt of government grant		—	—	540
Purchases of property, plant and equipment		(393)	(158)	(640)
Payments to acquire intangible assets		(110)	(55)	(228)
Net cashflow from investing activities		(503)	(207)	(315)
Financing activities				
Interest paid		(58)	(47)	(128)
Dividends paid to equity shareholders of the parent		(735)	(558)	(852)
Proceeds from share issue re. options		—	16	40
Refund of VAT on flotation expenses previously disallowed		—	32	31
Repayment of borrowings		(169)	(189)	(342)
Repayment of capital element of hire purchase contracts		(44)	(238)	(476)
Net cash outflow from financing activities		(1,006)	(984)	(1,727)
(Decrease)/increase in cash and cash equivalents		(432)	(72)	1,105
Cash and cash equivalents at the beginning of the period		1,214	109	109
Cash and cash equivalents at the period end	6	782	37	1,214

NOTES TO THE INTERIM REPORT

UNAUDITED RESULTS FOR THE SIX MONTHS TO 31 MARCH 2011

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 2011 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 2010 annual report and financial statements.

The financial information for the six months to 31 March 2011 and the comparative financial information for the six months to 31 March 2010 has not been audited. The comparative financial information for the year ended 30 September 2010 has been extracted from the 2010 annual report and financial statements.

The annual financial statements for the year ended 30 September 2010, which were approved by the Board of Directors on 10 December 2010, 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 2011.

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 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 2011 AND 2010

	Earnings 31 March 2011 £'000	Weighted average number of shares 31 March 2011 Thousands	EPS 31 March 2011 Pence	Earnings 31 March 2010 £'000	Weighted average number of shares 31 March 2010 Thousands	EPS 31 March 2010 Pence
Profit on ordinary activities after taxation attributable to ordinary equity holders	936	14,170	6.4	787	14,689	5.4
Basic EPS	936	14,170	6.4	787	14,689	5.4

4. EARNINGS PER SHARE CONTINUED

FOR THE SIX MONTHS TO 31 MARCH 2011 AND 2010 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 2011 £'000	Weighted average number of shares 31 March 2011 Thousands	EPS 31 March 2011 Pence	Earnings 31 March 2010 £'000	Weighted average number of shares 31 March 2010 Thousands	EPS 31 March 2010 Pence
Profit on ordinary activities after taxation attributable to ordinary equity holders	936	14,710	6.4	787	14,689	5.4
Weighted average number of shares under option	—	116	(0.1)	—	115	(0.1)
Diluted EPS	936	14,826	6.3	787	14,804	5.3

FOR THE YEAR TO 30 SEPTEMBER 2010

	Earnings 30 September 2010 £'000	Weighted average number of shares 30 September 2010 Thousands	EPS 30 September 2010 Pence
Profit on ordinary activities after taxation attributable to ordinary equity holders	2,188	14,696	14.9
Basic EPS	2,188	14,696	14.9

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

	Earnings 30 September 2010 £'000	Weighted average number of shares 30 September 2010 Thousands	EPS 30 September 2010 Pence
Profit on ordinary activities after taxation attributable to ordinary equity holders	2,188	14,696	14.9
Weighted average number of shares under option	—	111	(0.1)
Diluted EPS	2,188	14,807	14.8

CONTINUED
NOTES TO THE INTERIM REPORT
UNAUDITED RESULTS FOR THE SIX MONTHS TO 31 MARCH 2011

5. DIVIDENDS

The Directors propose the payment of an interim dividend of 2.1p per share (2010: 2.0p), payable on 29 July 2011 to shareholders on the Register on 15 July 2011. This dividend has not been accrued in these interim accounts. The dividend payment will be £309,000.

	Six months to 31 March 2011 Unaudited £'000	Six months to 31 March 2010 Unaudited £'000	Year to 30 September 2010 Audited £'000
Ordinary dividends on equity shares			
Final dividend of 3.8p per ordinary share paid on 26 February 2010	—	558	558
Interim dividend of 2.0p per ordinary share paid on 25 June 2010	—	—	294
Final dividend of 5.0p per ordinary share paid on 25 February 2011	735	—	—
	735	558	852

6. CASH AND CASH EQUIVALENTS

	Six months to 31 March 2011 Unaudited £'000	Six months to 31 March 2010 Unaudited £'000	Year to 30 September 2010 Audited £'000
Cash at bank and in hand	2,070	458	1,505

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

	Six months to 31 March 2011 Unaudited £'000	Six months to 31 March 2010 Unaudited £'000	Year to 30 September 2010 Audited £'000
Cash at bank and in hand	2,070	458	1,505
Bank overdraft	(1,288)	(421)	(291)
	782	37	1,214

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

The fair value of cash and cash equivalents is £782,000 (2010: £37,000).

At 31 March 2011, the Group had an unused, committed, £2.0m revolving credit facility which is available until 30 June 2012. In addition, the Group has a net overdraft facility of £1.0m which expires in April 2012. Overdrawn accounts in foreign currencies totalled £1.3m at 31 March 2011, offset by cash balances of £2.1m.

CORPORATE INFORMATION

BOARD OF DIRECTORS

TUDOR GRIFFITH DAVIES, B.SC
Non-executive Chairman

MARK CAMBRIDGE, B.SC
Chief Executive

DENIS GERALD WILSON MULLAN, B.SC, FCA
Finance Director

DAVID JOHN BUFFHAM
Independent Non-executive Director

SIR DAVID ROBERT MACGOWAN CHAPMAN BT, DL, B COMM
Senior Independent Non-executive Director

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