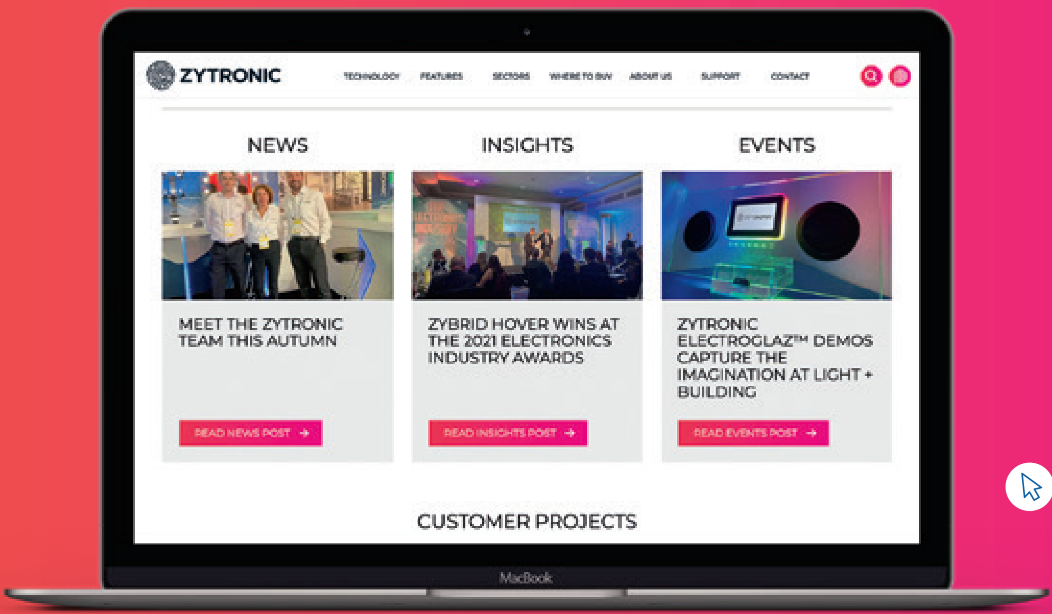
ZYTRONIC

POSITIONED FOR PROGRESS

ZYTRONIC PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS 2022

OUR VISION

To make our unique touch sensor technology pre-eminent in markets that require medium to large sized touch interactive systems.



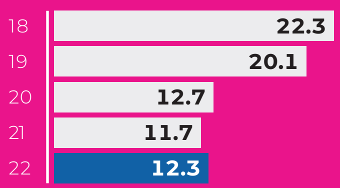
Learn more
https://www.zytronic.co.uk/

Highlights

- Increase in revenues to £12.3m (2021: £11.7m)
- Gross margin improved to 30.5% (2021: 30.3%) despite increased costs of manufacture, as a result of a positive change in product mix
- Gaming revenues increased 62% to £4.7m, Vending increased 39% to £3.6m, offset by a 59% reduction in Financial to £1.2m
- Volume increase in sale of large (> 30" diagonal) sensors of 70% to 13k units, multi-touch technology sensors of 44% to 18.5k units, and curved format sensors of 97% to 7k units
- Continuing profitability with EBITDA of £1.5m (2021: £1.4m) and profit before tax of £0.7m (2021: £0.5m)
- Basic earnings per share increased by 87% to 5.6p (2021: 3.0p)
- Proposed final dividend of 2.2p (2021: 1.5p), a 47% increase on the prior year
- Share buyback programme returned a further £2.0m of surplus cash and cancelled 1.3m shares
- Closing net cash of £6.4m (2021: £9.2m)

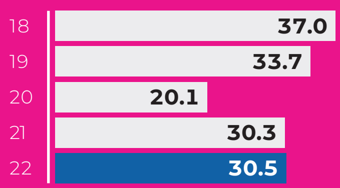
Group revenue (£m)

£12.3m



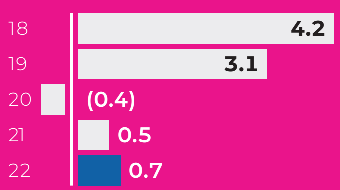
Gross profit margin (%)

30.5%



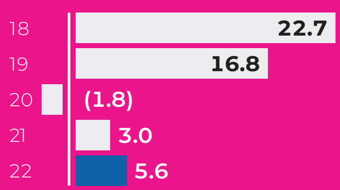
Profit/(loss) before tax (£m)

£0.7m



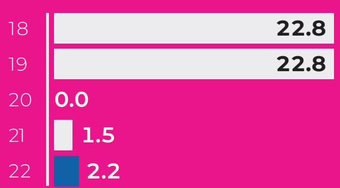
Earnings/(loss) per share (p)

5.6p



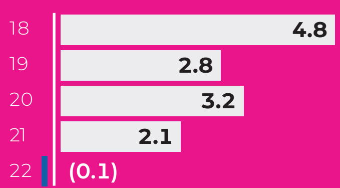
Dividends (p)

2.2p



Cash generated from operating activities (£m)

(£0.1m)



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OUR TECHNOLOGY EMPOWERS PEOPLE ALL OVER THE WORLD

From finding the way to a departure gate to dispensing drinks in a restaurant, touchscreens help people every day and everywhere.

What we do

PERFORMANCE

- Unsurpassed reliability and durability
- Capable of detecting 80+ touches with millisecond response
- All-weather functionality and unaffected by surface dirt
- Vandal resistant and gloved hand operation

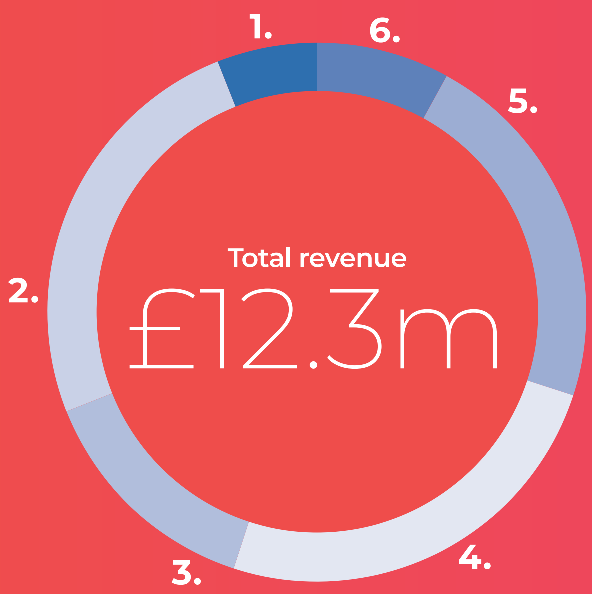
DESIGN

- Unique touchscreen designs with no/low tooling fees
- Any quantity you need, 1 or 1,000s
- 100% manufactured in our state-of-the-art facilities
- Toughened, curved, printed and machined options

SERVICE

- Global pre/post-sales support
- Over 50 years of glass processing experience
- Many years' expertise in touch controller and firmware development
- Rapid prototyping capability

Our markets by revenue



1. Signage
£0.6m
(2021: £0.7m)
5% of revenue
(2021: 6%)

2. Gaming
£4.7m
(2021: £2.9m)
38% of revenue
(2021: 25%)

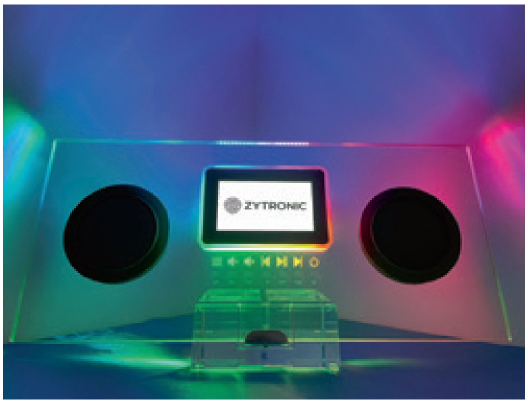
3. Industrial
£1.6m
(2021: £1.6m)
13% of revenue
(2021: 14%)

4. Financial
£1.2m
(2021: £2.9m)
10% of revenue
(2021: 25%)

5. Vending
£3.6m
(2021: £2.6m)
29% of revenue
(2021: 22%)

6. Other
£0.6m
(2021: £1.0m)
5% of revenue
(2021: 8%)

New products



ElectroglaZ™

Zytronic's ElectroglaZ™ technology is a bespoke lamination of non-conductive and conductive transparent glass. The arrangement allows power to be transferred across two or more individual layers within the laminate and tapped/extracted at the required locations to power multiple low power (<50V) devices. The delivery of this energy is wire/cable free and invisible to the user.

Read more at
https://www.zytronic.co.uk/technology/electroglaz/

STRATEGIC REPORT

Some of our customers

Coca-Cola · NCR · DIEBOLD NIXDORF · ARISTOCRAT · B/S/H/ · Smithsonian

Our touchscreens are everywhere

SIGNAGE

Our large format PCT™ touchscreens are increasingly used in digital signage, helping advertisers to engage directly with individual customers outdoors and indoors, and are reliable in all conditions.

GAMING

Our highly durable and customisable touch sensors are used in a variety of gaming applications, from betting terminals to slot machines. With reliable performance and engaging designs, our products offer an unbeatable player experience.

INDUSTRIAL

Our rugged, reliable PCT™ touch sensors are used in a variety of workplace applications, from medical diagnostic equipment to oil field machinery controls, providing low maintenance, year-round performance in all environments.

FINANCIAL

Our vandal-resistant PCT™ touch sensors have been trusted by global ATM and financial kiosk manufacturers for over a decade to provide reliable self-service performance both indoors and outdoors.

VENDING

Our tough, customisable PCT™ touchscreens enable self-service equipment to be deployed at the point of sale irrespective of the location and to provide 24/7 customer access in the harshest environments and climates.

OTHER

Our award-winning multi-touch MPCT™ touch sensors are available in any shape or size up to 86", perfect for multi-user touch tables in retail, leisure and commercial applications.

OUR TECHNOLOGY IS PROVEN, TRUSTED AND UNIQUE

Single touch

PCT™ self-capacitive touch sensing technology provides the durability needed for the toughest industrial and self-service applications.

Multi-touch

MPCT™ mutual capacitive technology offers most of the durability advantages of PCT™ projected capacitive technology, but with added multi-touch capability, and provides the same level of sensitivity experienced on smartphones and tablets.

ElectroglaZ™

Unlike a traditional power delivery system, electrical devices fitted into an ElectroglaZ™ product do not require a wire or cable connection and appear to be freely "floating" within an optically clear glass panel with no visual means of power connection.

Customisation options

Our vast experience in glass processing paired with our comprehensive in-house glass machining equipment allow us to manufacture touchscreen glass in near limitless forms, print borders, logos and other features onto the rear face of the glass, bend glass to produce curved touch sensors and thermally toughen glass to suit international safety standards.

Reliability

With its unrivalled durability, PCT™ and MPCT™ provide 24/7 functionality in the most difficult of environments, minimising system downtime, reducing maintenance and maximising return on system investment. It is proven, dependable, vandal resistant and practically immune to most types of physical, mechanical and chemical abuse.

Sensitivity

Zytronic touch technology will detect fingers, conductive stylus and even gloved hands, through glass thicknesses of 10mm or more. Yet, it ignores raindrops, leaves, dirt, ice, etc., making the touch sensors ideal for self-service and public use, in any environment.

High-impact resistance

The MPCT™ multi-touch sensors are typically constructed from a laminated toughened glass substrate of up to 10mm thick, meaning they are durable enough to withstand most impacts and extreme environments. Our PCT™ sensors can be made from even thicker glass, and are unaffected by rain.

WHY INVEST IN ZYTRONIC?

1

Continued cash generation from operations despite working capital increases

Financial review **P 26–27**

- Despite another year of difficult trading conditions, the Group has again generated cash from operations
- Strong cash continues to provide support for further business investment

£6.4m
cash in the Group

2

Diversified technologies, products, markets and applications

Our markets **P 11**

- Further investment into our markets has been made over the year with the recruitment of an additional channel partner
- The formal launch of ElectroglaZ™ was due to occur in March 2022 at the Light + Building Expo; however, this was postponed due to COVID-19 and eventually occurred in October 2022

5
key markets

3

Investment in our already proven and trusted technology

Our technology **P 4**

- Continued investment in technological advancements over the financial year with the formal product launch of the ZyBrid®edge zero border touch sensor
- Development of the independent powering of low voltage items and communication data transfer occurred ready to be shown at the Global Gaming Expo in October 2022

£0.4m
investment in R&D

4

Strength of opportunities pipeline

Operational review **P 10**

- Growth in opportunities over the year from 391 to 484
- As the global economy awoke from the effects of the COVID-19 pandemic, participation at expos helped to drive further opportunities

484
opportunities in pipeline

5

Excellence in manufacturing

Our business model **P 12–13**

- Recruitment of new and replacement personnel with better skills enables the Group to maintain its excellence in manufacturing
- Participation in the MAKE UK inaugural National Manufacturing Day to promote the world of manufacturing and to illustrate to the education community the benefit and application of STEM within a workplace

19
skilled employees degree level or higher, an increase of three over last year

A SOLID 5.6% IMPROVEMENT IN REVENUES

"

On behalf of the Zytronic plc Board, I would like to thank all UK and internationally based employees for their efforts in realising an improvement in the reported trading performance of the Group for the year ended 30 September 2022, during another year of unpredictability in underlying global supply chains and revenue generating markets in which the Zytronic business operates.

Introduction

On behalf of the Zytronic plc Board, I would like to thank all UK and internationally based employees for their efforts in realising an improvement in the reported trading performance of the Group for the year ended 30 September 2022, during another year of unpredictability in underlying global supply chains and revenue generating markets in which the Zytronic business operates.

Results

The detailed results and commentary for the year are presented in the operational and financial reviews that follow, but the salient points are that the Group produced a profit before tax of £0.7m (2021: £0.5m) on revenues of £12.3m (2021: £11.7m) and a gross margin of 30.5% (2021: 30.3%). This, combined with a 13% corporation tax rate for the year and the lower weighted average number of shares in issue (due to the tender offer and buyback programmes in FY21 and FY22, as detailed in the financial review), has resulted in an increase in the earnings per share to 5.6p (2021: 3.0p).

Whilst sales for the year showed a solid 5.6% improvement over last year, the revenue increases in two of our key markets, being 62% in Gaming and 39% in Vending, were countered by the 59% reduction in Financial. The weighting of sales this year was 48% and 52% across the first and second halves respectively. This is much closer to the historic norm than the pattern in FY21, which was 59% H2-weighted reflecting the release of pent-up demand in markets such as Gaming after the initial easing of COVID-19 lockdown measures.

Current trading

The first two months of the new fiscal year have continued to be affected by the same global supply chain considerations that were described in the trading update issued on 18 August 2022. The average monthly order intake is at levels similar to those of the second half of FY22 and therefore lower than the same period in FY21. The Board maintains the opinion that this is also being impacted by the more than two years of postponed face-to-face business development and marketing activities due to the pro-longed global impact of COVID-19. Encouragingly, those global activities have now resumed to pre-pandemic levels, which is observable in the improved volume and value of opportunities in our pipeline log.

Statement of financial position

The cash position at the year-end remains strong at £6.4m (2021: £9.2m) providing the basis for stability. In the year, working capital increased by £1.4m, impacted by the necessary increase in raw material stocks undertaken to mitigate various supply chain issues, particularly in support of our customer supplied electronic touch controllers, and increases in debtors at the year end. £0.5m was spent on investing activities (2021: £0.3m) and £2.2m in financing activities, being the on-market share buybacks of £2.0m and the £0.2m payment of the FY21 final dividend (2021: £6.7m, £6.7m and £Nil).

Return to shareholders/dividend

In February 2022 the Board decided it was in shareholders' interests to continue to use our previously identified surplus cash balances to undertake on-market share buybacks, utilising pre-existing authority and that additionally granted at the 2022 AGM. Consequently, a total of 1,257,415 Ordinary shares were repurchased and cancelled by the Company at a weighted average share price of 161p. The resultant closing shares in issue at the year-end were 10,161,737.

As the Group has achieved an improved profitability over the year the Board has decided to recommend to shareholders a final dividend of 2.2p per share (2021: 1.5p), payable on 24 February 2023 to shareholders on the Register on 10 February 2023.

Board changes and corporate governance

As announced in last year's Chair's statement, Tudor Davies stepped down from his position at the conclusion of the 3 March 2022 AGM, after serving ten years as Chair of the Company, at which point David Buffham was appointed as the new Non-executive Chair. On 4 March 2022, after an extensive search, Mark Butcher joined the Company as an independent Non-executive Director ("INED").

In early October 2022, David Buffham informed the Company of a medical issue and requested a temporary leave of absence, which by the end of the month had unfortunately resulted in his formal retirement as a Director (including as Chair) on the grounds of ill health. We wish David the best in his recovery and take the opportunity to express the Boards gratitude for his tenure, formerly as an INED and Chair of sub-committees and latterly as Chair of the Company.

To maintain stewardship, continuity of leadership and corporate governance at the time of David's temporary (and then permanent) leave of absence, the Board considered the appropriate interim course of action, being that I should relinquish my position as CEO and take up the new position of Acting Executive Chair. This enabled Mark Butcher to continue to Chair the Board's sub-committees independently. During this period, to maintain an appropriate level of independent influence, should there be situations regarding a decision on which the Board was not unanimously agreed, then Mark Butcher as INED would carry the casting vote, with one of the Executive Directors abstaining. This decision remains in force whilst the Company undertakes the recruitment and appointment of at least one new INED to reconfigure the Board and comply with the QCA Corporate Governance Code.

Outlook

Whilst supply chain issues persist, equally for Zytronic and its customer markets, and average order intake for the first two months is running at a level similar to the second half of the prior year, we are encouraged by the full return of our key face to face global business development and marketing. These activities provide the basis for progress as we continue to accelerate the rebuilding of the opportunities pipeline.

Mark Cambridge
Acting Executive Chair
12 December 2022

INCREASING OPPORTUNITY GENERATION

> Of our major contributory markets, both Gaming and Vending showed considerable growth in revenues against FY21.

Performance/business activity

Total sales revenues for the year of £12.3m were 5.6% greater than the £11.7m of FY21. Order intake over the year matched revenues at £12.3m, which represented a 2% increase over the £12.1m of FY21. Revenues generated over the year continue to show the historical norm of a stronger second half performance against first half, being H1 of £5.9m against H2 of £6.4m. This weighting is less pronounced than that observed in FY21 (H1: £4.8m; H2: £6.9m), as the second half of FY21 saw the resumption of delayed Gaming demand, in particular after the easing of previous periods of COVID-19 lockdowns. The much improved first half order intake of £7.4m was contrary to normal weighting across the two halves of the financial year, as customers placed longer visibility purchase orders to mitigate supply chain risk for scheduled second half output, being 33% higher than the £4.9m order intake in the second half of the year.

A number of factors influenced the degree of variation over the year. The recognised and well-documented issues in global electronic component supply chains, which have gone well-beyond just those of reported issues with semiconductors, still remain challenging for sales into all regions. The global effects of the Omicron variants of COVID-19, which particularly impacted the critical business development lead generation processes and face-to-face marketing efforts, continued well into the second half of the fiscal year and in some instances into the start of the current fiscal year. The Russian war in Ukraine has particularly affected our non-touch electromechanical interference shielding products, due to their export dual-use status and therefore potential military use in Russia, and also several future opportunities in encrypted touch for our application partner.

Of our major contributory markets, both Gaming and Vending showed considerable growth in revenues against FY21, being somewhat offset by the decline in our Financial market revenues across the comparative period. This was also reflected in our export revenues as we observed a year-on-year 32% increase in revenues to Asia, as Gaming increased, offsetting the observed 24% decline in revenues to Europe as Financial sales decreased.

Market	**2022**	2021
Gaming	**£4.7m**	£2.9m
Vending	**£3.6m**	£2.6m
Industrial	**£1.6m**	£1.6m
Financial	**£1.2m**	£2.9m
Signage	**£0.6m**	£0.7m
Other	**£0.6m**	£1.0m
Total	**£12.3m**	£11.7m

Gaming

Our products sold into the Gaming market have continued to show a reasonable recovery from the pandemic, which is reflected in the doubling of sales to our primary display integrator customers based in South Korea. In turn these have benefited from a resumption of OEM unit builds in our primary deployment market of Las Vegas. However, the effects of the pandemic are still being experienced, evidenced by the lack of new cabinet design innovation observed at the latest October 2022 Global Gaming Expo ("G2E"), although discussions and indicators point towards 2023 being a trigger point for the OEMs to commence new design work, in preparation for product launches post G2E in late autumn 2023.

Vending

Sales of our products to the Vending market have also shown reasonable year-on-year growth, albeit slightly skewed to the first half this year. Revenue growth has mainly been generated from the US, as well as France and Spain, in FY22. The primary performance driver is an increase in unit sales to a US-based display system integrator for a brand-independent OEM drinks fountain manufacturer. France and Spain both benefited from volume increases to regional electric vehicle public charging station OEMs, an application area which presently remains regionally fragmented.

Industrial

Sales of products to the Industrial market, which are generally associated with machine control interfaces and informational kiosks, have shown little year-on-year variance; however, geographically we observed a doubling of revenues from the UK and Americas, offset by an equal aggregate decline in Europe and the Asia Pacific region ("APAC").

Financial

Product sales to the Financial market, which historically up until FY21 has been one of our top two revenue-generating markets and dominated by ATM products, has now achieved a maintenance level of revenue generation with our primary market customers as previously indicated. A number of factors have influenced this position, but the main factor is that the latest ATM platforms to market are no longer utilising Zytronic products. We continue to interface with customers in this market, either directly or in partnership for our encrypted touch solution, of which we had been very hopeful of seeing our partners product to market this year, prior to the Russian war in Ukraine.

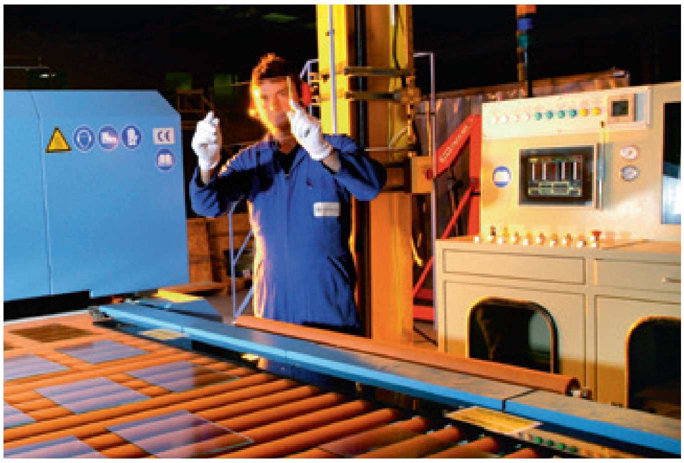
Signage

Sales of products to the Signage market, which comprise non-transactional informational systems, and tables, remained fairly consistent year-on-year, with small improvements observed in UK and APAC sales, offset by a more significant drop in US sales as the deployment of smart cities street furniture has declined during the pandemic years.

Other

Sales of products to our combined Other general category, including smaller individual markets such as Healthcare, Home Automation, Industrial Telematics and Military, and others also exhibited lower year-on-year revenue generation. This drop in comparative performance is largely associated with the revenues observed from a Singaporean medical OEM during the pandemic height, which has not been repeated during FY22.

In total across all markets, 60k touch sensor units have been supplied in FY22, compared to 76.5k units in FY21. As Gaming returned, we realised a better mix shift to larger unit sizes (>30" diagonal) with a 70% volume improvement to 13k, countered by a 43% drop to 17.5k in the small (<14.9" diagonal) size range and a 23% drop to 29.5k in the medium (15–29.9" diagonal) size range. Along with an improvement in larger sizes, we also saw a 44% improvement in the volume of our MPCT™ sensors supplied to 18.5k units and a 97% improvement in the volume of curved and shape touch sensors to 7k units.



The observed electronic component shortage issues, which went well beyond the reported semiconductor supply issues, resulted in the R&D team spending a significant amount of resource identifying, approving and re-designing our families of electronic controllers, on an almost constant basis over the course of the year. We anticipate that this is a situation that is likely not to ease until the middle of calendar year 2023 at the earliest.

New product development/opportunities

Major R&D projects which have been worked on over the course of FY22 include:

- the formal product launch of the ZyBrid®edge zero border touch sensor at the Barcelona ISE Expo in May 2022;
- demonstrator design concepts for ElectroglaZ™ solutions, including a conceptual high end Hi-Fi unit, for the October 2022 Frankfurt Light + Building Expo;
- developments around the independent powering of low voltage items and associated communication data transfer, like mechanical buttons, LED lighting and mobile phone chargers, by the utilisation of the same micro filament structures that form the basis of our touch technology, for the October 2022 Las Vegas Global Gaming Expo;
- glass processing and novel structures, to create localised enhanced areas in conjunction with our touch technology to provide static tactile feedback such as touch buttons; and
- a second jointing laser for siting within the main factory cleanroom to provide risk mitigation and comparable production capabilities across the site, which is expected to be fully operational in early 2023.

Intellectual property

Some of the work around novel glass structures and their interaction with our touch technology has resulted in a further patent application being made in the year, relating to a non-mechanical touch sensing button, titled "An interactive device". Three further international patents have also been granted during the year, GB2576674, titled "User preference indication", US11,392,215, titled "Button Supply", and EP2856294, titled "Non-planar touch panel production method", taking the total of internationally granted patents within our portfolio to twelve, with a further twelve still at either application or pending examination stages.

Business development activity

As we entered FY22, we were fully expectant of a resumption of our pre-pandemic business development and marketing practices by early January 2022. Unfortunately, the global surge in the two Omicron variants of COVID-19, put the timing of physically addressing our global markets significantly backwards. The European Gaming show, ICE, was cancelled in January, only to be re-confirmed for Easter, consequently with a very poor attendee and exhibitor turn-out, whilst the ISE Expo was moved from its original first week of February slot to mid-May, and the Light + Building Expo was moved from early March to early October. However, we were still able to maintain a modest presence at the Global Gaming Expo in October 2021, Touch Taiwan in May 2022 and Digital Signage Japan in June 2022 through our internationally based employees. In conjunction with our German channel partner, we also undertook active participation at Embedded World in June and InnoTrans in September 2022.

During the year, with a return of an ever-increasing calendar of tradeshow events as well as a continuation of the developed social media, digital content focus and written trade publications platforms, we strengthened the internal team with the appointment of a marketing specialist. Consequently, a review of our present and potential future marketing strategy is being undertaken. Details of all relevant news from customer testimonials to thought pieces, technology updates and event attendance, can be found on our operating company website at https://www.zytronic.co.uk/news/.

For a number of years now we have reported on the utilisation of our CRM system, to log and monitor leads and opportunities generated from a combination of tradeshow participation, direct business development, indirect channel partner engagement and application directed marketing campaigns. As a dynamic system, opportunities are either "Open", or "Closed". A Closed opportunity is either "Won", as it has moved from our CRM system to productive purchase order(s) (not sampling orders), or "Lost", being the point at which the potential customer has confirmed either it has lost its opportunity or it no longer has interest in pursuing a Zytronic solution, which can be for reasons of price, specification, capability, or opportunity duplication.

One simple way of looking at the dynamic changes in the data, is by assessing the levels of Open opportunities at month ends, in terms of the total quantity and associated total customer projected lifetime value ("CPLV"). What is clearly discernible is as COVID-19 impacted, and global lockdown protocols initiated from circa January 2020 onwards, how our inability to add new opportunities to the pipeline from that point, whilst existing opportunities Closed, meant that the pipeline of opportunities declined for a near two-year period, bottoming around late summer 2021.

It is from this point onwards as degrees of our previously impacted business development and marketing actions began the slow return to pre-pandemic activity levels through FY22, we see the evidence of the pipeline rebuild.

It should be noted that in the Zytronic addressable markets and position within the touch eco-system, the rate and timing of the maturation of opportunity conversion to Won status, has a well-reported historical average two-year timeframe, which is likely to still exist as the pipeline continues the rebuild.

As of 30 September 2022, there were 484 Open opportunities in our CRM system, with a CPLV of £59m (2021: 391 and £28m), and, of the two largest addressable markets, Vending applications accounted for 156 Open opportunities, with a CPLV of £33m, whilst Gaming accounted for 26 and £11m respectively. At the end of the year, the log did not contain any ElectroglaZ™ Open opportunities as this time-point was prior to the Light + Building Expo.

Organisational adaptation

In the 2020 and 2021 reviews, comment was made regarding the significant restructuring that was undertaken to match the business conditions that prevailed at that time. However, as those conditions started to show evidence of improvement over the year, as well as increasing the productive labour workforce and the strengthening of marketing support, we have also added to electronics engineering and software development in the R&D department and latterly to sales with the appointment of a US West Coast-based Business Development Manager (appointed on 1 October 2022), as well as considerations around changes to working practices across the whole business to improve both retention and recruitment.

Skills gaps and recruitment of productive labour continue to prove generally problematic in the manufacturing sector. Our Operations department therefore took an active part in July 2022 in the MAKE UK (The Manufacturers' Organisation) inaugural National Manufacturing Day, as part of a UK-wide open house, to provide a better understanding of the diversity of opportunities in the manufacturing sector, to illustrate for the education community the benefit and application of STEM within a workplace and to foster local community interaction and relationships, with an overarching remit to help in the recruitment process for businesses.

Post the event, the Group successfully recruited one of the local attendees and has continued to multi-skill the productive labour force to provide resilience to the changing business needs.

Mark Cambridge
Acting Executive Chair
12 December 2022

OPERATING GLOBALLY

We sell all over the world, with 95% of our products sold in the year being exports. To facilitate this, we have a strong network of value-added resellers ("VARs"), local sales and technical personnel in key territories and UK-based key account managers to support our EMEA region.

Americas

Revenue growth in the Americas has been modest during 2022.

20% of Group revenue

Revenue

£2.5m

(2021: £2.2m)

UK

Revenue in the UK has increased by 40% over the year.

5% of Group revenue

Revenue

£0.7m

(2021: £0.5m)

Locations of our global channel partners

EMEA

We have seen revenue reduction in the EMEA region as the Financial business has continued to decline.

30% of Group revenue

Revenue

£3.6m

(2021: £4.8m)

APAC

This is the biggest area of revenue due to the increased demand for product into the Gaming market.

45% of Group revenue

Revenue

£5.5m

(2021: £4.2m)

COMPETITIVE ADVANTAGES STEM FROM OUR TECHNOLOGY

We are global leaders in providing touch solutions that are incredibly durable and exceptionally responsive. Our products are proven in the toughest environments and are trusted by major corporations around the globe.

Our key resources and relationships

Proprietary PCT™ technology

Patented MPCT™ technology

ElectroglaZ™

1
new patent applied for in 2022

12
patents granted in total

A diverse team of experts which continuously develops processes, materials and functionality in:

Mechanical

Electronic

Software

Firmware

In-house facilities:

ISO-approved quality and environmental systems proprietary PCT™ technology

Multi-lingual/ multi-national sales, customer service and technical support

Our manufacturing capabilities

Our products
We know glass. Our in-house facilities include automated cutting, edge grinding, polishing and drilling machines, complemented by bending and thermal tempering ovens and screen printing equipment. Our dedicated and talented manufacturing team has decades of experience in glass processing and lamination.

Diverse product range
Since the turn of the century, Zytronic has concentrated on the development and marketing of its range of interactive touch sensor products based upon its unique projected capacitive technologies (PCT™ and MPCT™) to industrial, public access and self-service equipment designers and end-users, in market areas such as Financial, Gaming, Vending, Signage, Industrial and Medical, etc.

Design options
Zytronic's PCT™ and MPCT™ products offer equipment designers and end-users a unique blend of high durability and environmental stability, in customer and application specific designs in a limitless variety of shapes, sizes, thicknesses, strengths, colours, etc., and capable of use in any location.

Location
The Group is headquartered and operates from three modern factories totalling 80,000 sq ft, which are all located on a single site in the UK.

CASE STUDY

Interactive passenger info displays

Travellers at airports, railway stations and other transit hubs now have easy access to a wealth of up-to-the-minute information at their fingertips thanks to the ingenuity of engineering solutions provider L.B. Foster. The 43" INFORM range produced by L.B. Foster includes fixed and mobile interactive totems plus wall-mounted displays. The units take advantage of Zytronic's highly durable multi-touch projected capacitive touch (MPCT™) technology supplied via its UK distributor, Display Technology Ltd, based in Huntingdon, Cambridgeshire.

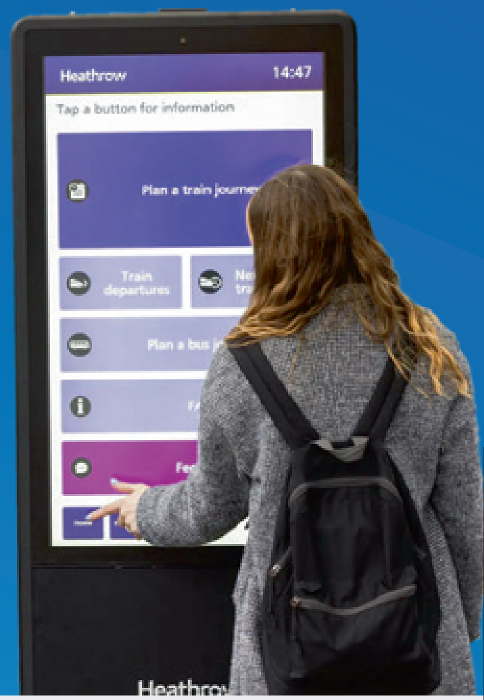
Display Technology supplied two customised touch screen designs for L.B. Foster at its UK manufacturing facility. Both totem and wall-mounted units are 43" in size and are required to work indoors and outdoors, in often unattended locations. To meet this requirement, the TFT LCD displays supplied feature a wide operating temperature with low power consumption while offering high brightness. Each has Zytronic's ZXY500™ multi-touch controller to provide millisecond fast, all-weather performance. The touch sensors are made from printed 6mm thermally tempered glass with a laminated rear hard-coated polyester film, delivering optimum impact resistance and anti-spalling in the event of breakage. The glass selected has an anti-glare etched finish for better image display visibility in direct sunlight and the touchscreens also incorporate UV blocking and IR reducing filters to help protect the underlying LCD from sunlight damage and assist the overall system thermal management.

Location: UK

Sector: Signage

Customer: L.B. Foster

Read more at zytronic.co.uk/case-studies/



How we add value

Customers

We have been honoured to work with dynamic and prestigious companies, which are global leaders in their respective fields. We do this by putting our customers' needs at the forefront of our business.

Employees

With well over half a century of glass processing and laminating experience, and over 20 years of experience developing our touch controllers, our employees are experts in their fields.

Shareholders

We continue to deliver value for our shareholders and have returned considerable dividends over the years when results have allowed us to do so. Over the last two years we have given shareholders an option of further returns of capital through the share tender and share buyback programmes.

Partners

We have a developing network of specialists, international representatives and resellers, all of which are dedicated to meeting the needs of our customers.

Innovation

Innovation is key to the Group's success. Over the course of the year another patent application was made and another three patents were granted.

Re-investment and route to markets

Re-investment

From "force sensing" to "object recognition" touch control firmware, or from curved to "explosion resistant" glass touchscreens, we constantly strive to be ahead of the trends, and bring our customers the most up-to-date advancements in touch technology. We do this by continually re-investing in the development of new technology, products and processes. This is substantiated by the further development of ElectroglaZ™ over the year.

Route to market

Direct presence

We have key account managers on the ground in the locations where we see the biggest growth opportunities. Our experienced personnel can react quicker to customers' needs and ensure the Zytronic brand continues to be globally recognised.

Sales channel partnerships

We have 34 sales channel partnerships to sell our products around the world, 13 of which are in EMEA, twelve in APAC and nine in the Americas. This is an increase of one over the year.

ENGAGING WITH OUR STAKEHOLDERS

Our stakeholders help to shape our strategy and are critical to our success. We engage to ensure we manage expectations and promote trust and transparency across all our activities with a view to promoting mutually beneficial relationships.

Section 172(1) statement on the discharge of Directors' duties

In compliance with the Companies Act 2006, the Board is required to act in accordance with a set of general duties. During the year ended 30 September 2022, the Board considers that it has individually and collectively acted in a way it considers, in good faith, would be most likely to promote the success of the Group for the benefit of its shareholders as a whole having regard to the six matters listed in Section 172(1) (a) to (f) of the Companies Act 2006. In order to achieve long term success for the benefit of all shareholders, the Board recognises the importance of building and maintaining relationships with key stakeholders as well as considering the likely consequences of its decisions in the long term.

Duty to promote the success of the Group

Zytronic's objective is to progress shareholder value through the further development of its touch technology and ElectroglaZ™ product offerings, targeting growth application areas and expanding its global sales channel footprint. This financial year has, despite an increase in both revenue and profitability, been another year of challenge. The Operational and Financial review discusses this in more detail.

Stakeholder engagement

The Board recognises its responsibility to take into consideration the needs and concerns of Zytronic's key stakeholders as part of its decision-making process. The following table demonstrates how the Group engages with its stakeholders and the target outcomes:

CUSTOMERS

How we engage

- The Board receives feedback from its customer-facing personnel. The key account managers each have territorial responsibility to engage with current and potential customers and there are quarterly team meetings to discuss opportunities across the Group.
- Customer feedback is regularly sought and collected by the business through a wide range of channels. This information is processed and analysed and often utilised in future product development to the benefit of all parties. The Sales and Marketing Director and R&D Director both play crucial roles in the development of new business relationships and project success.

Key outcomes

- Increased level of engagement with customers at a strategic level.
- A greater understanding of both customer and market trend requirements better informs the development and refinement of our own strategy.
- Board-level engagement with our customers will help us convey our commitment to understanding and meeting their business needs.
- Listening to "the voice of the customer" enables us to be more effective in pre-empting and meeting their evolving needs and wants.

Why they are important

- As a bespoke and specialist manufacturer, understanding our customer requirements ensures repeat business in future years and is a strength of the Group.
- Customers are the lifeblood of the business, their suggestions often drive our development activities.

What matters to them

- Receiving exceptional quality product, made exactly to their specification and delivered on time.
- The Group listens to its customers and understands exactly what they require, enabling them to bring innovative and unique products to market.

EMPLOYEES

How we engage

- The Executive Directors communicate with employees following the trading Board meetings and also via internal communication memos and notices. Directors consult and seek opinion from managers and employees on a variety of different matters.
- The Group relies upon highly specialised skill sets in some areas of its business. The Group is willing to invest in its employees through training to ensure that those skills are maintained in the business.

Key outcomes

- Wider and deeper communication leads to greater transparency throughout the business and facilitates a more engaged, motivated and effective team.
- The Group aims to provide a rewarding long term personal development opportunity environment for its employees.
- A better informed and consulted workforce is more likely to have increased motivation and be more effective.

Why they are important

- The long serving and highly skilled production employees ensure that exceptional product quality can be delivered to the customers.
- The Group's strength is in delivering the best touch solution to its customers requirements. This is provided through its people, from the initial engagement through to delivery of the product. Zytronic aims to be best in class.

What matters to them

- Good working conditions, fair pay and flexibility (where possible) ensures an engaged and happy workforce.
- Career development and progression, with training opportunities enables employees to remain engaged and loyal.

INVESTORS

How we engage

- The Chief Executive Officer and Group Finance Director hold analyst and investor meetings throughout the year both on request and specifically following the release of the annual and half year results. Feedback from these meetings is shared with the Board.
- The Annual General Meeting and our webcast on Investor Meet Company are the primary methods of engagement with private investors along with the annual report. We encourage investors to attend and ask questions they may have. At the end of the meetings, the Board engages in an open and informal forum with attendees. The Group also offers investors the chance to visit its facilities outside of these formal engagement methods. This is something that is welcomed by those that have attended.

Key outcomes

- A wide range of communication channels are used to engage with investors during the year. Feedback from investors has informed the Board's discussions and can influence decisions on the Group's strategy. All material information that is worthy of investor announcement is made available simultaneously to both shareholders and potential shareholders.
- We value the opportunity to meet with our shareholders and engage in an exchange of views and ideas and, post Annual General Meeting, we review the feedback we have received.

Why they are important

- Investor support is vital to the long-term performance and success of the Group.
- To enable future growth it is important to have a loyal shareholder base.

What matters to them

- As an AIM listed company, the shareholders expect reliable, timely and transparent information to enable them to assess their investment portfolio and their exposure in Zytronic stock.

SUPPLIERS

How we engage

- Meetings are sometimes held with key suppliers at both their facilities and ours. This ensures a more intimate knowledge of each other's capabilities and objectives and leads to a closer working relationship.
- Our Group policies are flowed down to our supply chain to ensure compliance with social responsibility and good governance policies.
- The R&D Director has a keen interest in the supply chain and the introduction of new materials to ensure they meet the requirements of our end product.

Key outcomes

- The Group's supplier base is a key part of the Group's ecosystem and effective relationships with our suppliers are essential to the delivery of Group performance.
- We minimise our exposure to supplier related risks by requiring them to adhere to our Group policies and for them to confirm they are not in conflict with these policies before or during engagement.

Why they are important

- The Group's external supply chains are an integral part of the business and effective engagement with the suppliers is an essential element of its ability to provide world class products.

What matters to them

- Some of the raw materials that are sourced have particularly long lead times and it is essential that the Group communicates its requirements in sufficient time for the suppliers to meet delivery dates.
- Paying suppliers on time is the key to a good working relationship.

TARGETING GROWTH APPLICATION AREAS TO CREATE VALUE

The Group's strategy is to progress shareholder value through the further development of its touch technology and Electroglaz™ product offerings, targeting growth application areas and expanding its global sales channel footprint.

Strategy	What we did in 2021/2022
Innovate We identify development projects that will enhance our technology and increase its ease of use and functionality for customers and end-users, and we listen to existing and potential customers and our markets for future requirements.	▶ Feedback was received on our sampled ZyBrid®edge video wall development and testing confirmed it worked with the Microsoft Windows 11 operating system. This product was showcased at the delayed ISE expo during the year. ▶ We continued to develop the ElectroglaZ™ product offering to highlight it can be used in a variety of applications, ready to be shown at the Light + Building expo, that was postponed to October 2022. ▶ We applied for another patent in the year and had a further three patents granted.
Grow We continue to seek opportunities to expand our sales channels and direct presence across the world and aim to establish representation in additional countries, for example the Philippines and in the Middle East.	▶ We increased our channel partner representation over the year by an additional one partner. This will help us to engage with more customers on future projects. ▶ As the global travel restrictions eventually relaxed, we were able to re-engage our important prospecting activities and grew our opportunities over the year to close at 484 compared to 391 in the previous year.
Invest We review our manufacturing methods regularly to bring through efficiencies in production. We add new plant and equipment each year, as necessary, to add capacity and replace old equipment. We invest in our marketing activities to promote our business on a global level. We invest in our employees to ensure we have the necessary calibre of people.	▶ We trained all of our employees in Equality and Diversity over the course of the year. We also trained an employee in mental health first aid. ▶ We approved the purchase of a new replacement ERP system in the year and commenced the implementation of it. Once fully operating, this will give us better management information.

CASE STUDY

Double-sided LCD display

Zytronic's Japanese partner and touch display integration specialist, DISIGN, recently developed its infoverre™ super-thin, double-sided LCD display unit into an interactive touchscreen module purpose designed for a well-known chain of Japanese drive-thru quick-service restaurants ("QSRs"). Single-sided versions for indoor self-service ordering have also been deployed. The rugged yet sleek units feature Zytronic's all-weather ZyBrid® 15.6" multi-touch sensors mounted directly in contact with the display's surface in conjunction with its proprietary ZXY500™ projected capacitive controllers.

DISIGN acquired the infoverre™ glass signage business from AGC Inc. in 2021 with an agreement to develop the technology further. This display solution successfully mitigates light reflection, which typically occurs at the interface of layered substrates because of their different refractive indices.

Location: Japan

Sector: Vending

Customer: DISIGN

Read more at zytronic.co.uk/case-studies/

STRATEGIC REPORT

Our priorities for 2022/2023

KPIs and risks

- We will continue to test the new fiber laser machine to ensure when operational there are no hiccups.
- We will respond to feedback and enquiries on the ElectroglaZ™ offerings as shown at the Light + Building expo to further enhance this product.
- We will continue to work on new product developments in tandem with our customers to bring new and innovative products to market.

Link to KPIs
Group revenue, gross profit margin, administration expenses, cash generated from operating activities and order intake over the year.

Link to risks
Advances in competing technologies, cyber security risk and COVID-19.

- We will appoint a new business development manager into the Americas region to continue to grow our presence there and support our current customer base.
- We will continue to grow our opportunities through product development and face to face prospecting, with a number of sales trips and expos booked for attendance in the coming year.

Link to KPIs
Group revenue, gross profit margin, administration expenses, cash generated from operating activities and order intake over the year.

Link to risks
Downward price pressures from competing technologies, reliance on key customers, increasing costs of raw material supplies, cyber security risk, managing increases in the overhead base, risks associated with currency movements, risks associated with timing of customer projects and price reductions and COVID-19.

- We will ensure our new ERP system is delivered over the year and will monitor the additional benefits it will bring.
- We will continue to invest in our people. We have already identified further training courses which will bring benefits to the business.

Link to KPIs
Group revenue, gross profit margin, administration expenses, cash generated from operating activities, order intake over the year and recorded accidents.

Link to risks
Reliance on key customers, cyber security risk, risks associated with timing of customer projects and price reductions and COVID-19.

CASE STUDY

Zytronic gives Taiwanese integrated display manufacturer the magic touch

Location:
Taiwan

Sector:
Industrial

Customer:
Innolux

Advanced display manufacturer Innolux had been searching for different haptic solutions for its touch displays to enrich the user experience. Until the company engaged with Zytronic's Taiwanese representative, Chris Su, the Innolux engineering team had yet to achieve a suitable tactile solution for its rugged touch displays designed for self-service kiosks and other public displays. Following the engagement, Innolux created an innovative multi-haptic control panel, and Zytronic provided the missing tactile dimension to the touchscreen.

The Innolux concept incorporates a 13" customised ZyBrid® multi-touch sensor with precision-engineered 3D surface features machined in the 4mm thick toughened glass to guide the user's fingertips to the appropriate position on the screen. Zytronic's proprietary ZXY500™ controller delivers the multi-touch functionality and supports complex gestures, including contactless "hover" touch plus palm rejection, high noise immunity and millisecond fast speed of operation.

On the surface of the touchscreen, using its latest 5-axis computer numeric controlled ("CNC") glass machining equipment, Zytronic machined precise, polished "dimples", grooves and a dial into the glass. Precision machining the tactile finger guides into the glass surface, rather than drilling through and mounting physical dials, buttons and sliders, means that it is far easier to create a waterproof, hygienic user interface with fewer exposed moving parts, enhancing reliability.

> **These machined features can be located around the periphery of the display or over the LCD itself.**

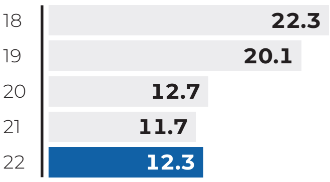
Read more at
zytronic.co.uk/case-studies/

MEASURING OUR PERFORMANCE

Key
- Innovate
- Grow
- Invest

Commentary on the actual performance of the Group against these KPIs is set out in the Chairman's statement and the Operational and Financial reviews.

Group revenue (£m)
6%

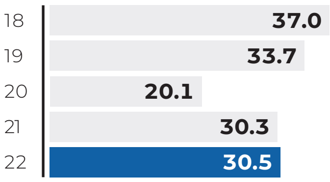


Link to strategy

Definition
The total amount the Group earns from the sale of its products.

Our performance
The Group has seen recovery in revenue over the period, as Gaming and Vending sales have dominated.

Gross profit margin (%)
1%

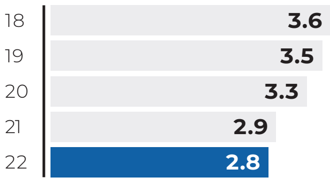


Link to strategy

Definition
The gross amount of margin earned from the sale of the Group's products.

Our performance
Sales mix has helped to increase gross profit margins over the period.

Administration expenses (£m)
-3%

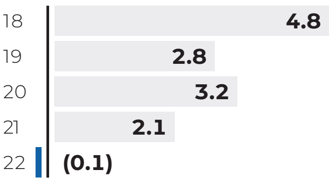


Link to strategy

Definition
The indirect costs incurred in running the Group.

Our performance
Savings in administration costs arose as a result of lower professional costs over the year.

Cash generated (£m)
-104%

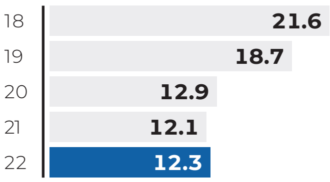


Link to strategy

Definition
Cashflow from operating activities adjusted for non-cash items.

Our performance
Working capital has been stretched over the year with increases to both stocks and debtors.

Order intake (£m)
2%

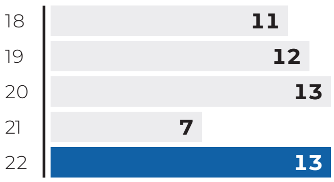


Link to strategy

Definition
Orders received during the financial year.

Our performance
The Group saw a small increase to its order intake over the financial year.

Recorded accidents
85%



Link to strategy

Definition
Total number of accidents recorded in the business over the year.

Our performance
Two accidents in the year were reportable to RIDDOR. No follow-up on these accidents was required.

PEOPLE ARE AT THE HEART OF OUR BUSINESS

We have three core values which serve as the guidelines for our conduct as an organisation and for the behaviour of our employees.

1. INTEGRITY

Building relationships of mutual respect with colleagues, customers, suppliers, advisers and investors, ensuring that we conduct ourselves at all times in an open, honest and ethical manner.

2. QUALITY

Providing customer satisfaction through the continual improvement of our products and processes and the capabilities of our employees, through innovation, development and training.

3. PERFORMANCE

Driving towards profitable growth and increasing shareholder value through the balance of short term demands and long term strategies.

Environmental

At Zytronic we are committed to working towards a cleaner and greener future for all.

We endeavour to comply with all relevant environmental legislation and regulation. It is our goal to attain higher standards of environmental performance where practical and appropriate.

We are fully compliant with BSI Environmental Management System ISO 14001:2015 and have regular external audits to support this.

Training

Employee training and development is one of the key factors to our success. Comprehensive training programmes allow us to advance workplace safety, productivity and satisfaction, as well as creating an informed and inspired workforce which can contribute to the advancement of our touch technology. We regularly review this across all departments to ensure that we continue to meet the needs of the Group and also to assist in succession planning. Over the course of the year, all members of staff were trained in equality and diversity. We also trained our HR Adviser as a Mental Health First Aider to ensure that anyone with any issues of that nature had someone to discuss their concerns with. Our Management Accountant also obtained her CIMA accreditation over the year.

Recycling

We promote environmental awareness throughout the Group and have introduced a number of activities which include the recycling of paper, cardboard, plastics, cans, bottles and metals, etc. Since introducing these recycling activities, Zytronic has reduced pollution into the environment by diverting 97% of its waste away from landfill, with the remaining 3% being used as RDF fuel. Over the year we have engaged with a local wood recycling company to re-purpose our pallets and crates. See overleaf for more information.

Diversity

We pride ourselves on our diversity. Varying characteristics of our employees include, but are not limited to: religious and political beliefs, gender, ethnicity, education, socio-economic background, sexual orientation and geographic location.

Apprenticeships

We are committed to training and have embarked on an apprenticeship scheme to train our engineers of the future. We believe this will continue to help to mitigate against a possible longer term skills gap and encourage more apprentices to join the Group.

Zytronic is engaged with a local apprenticeship training scheme, TDR Training, an approved training provider based in North East England which provides apprenticeships in engineering and manufacturing at level three, amongst other apprenticeships.

Zytronic currently employs two apprentices to serve as a multi-skilled Maintenance Technician and a Production Technician, both of whom are in their final year of training and should qualify in the year ahead.

The Group has identified the benefits of recruiting through an apprenticeship scheme and will be looking to maintain this where necessary in the future.

Zytronic has reduced pollution into the environment by diverting 97% of its waste away from landfill, with the remaining 3% being used as RDF fuel.

Employee engagement
We strive to create the right conditions for all members of our organisation to give their best, be committed to our goals and values, and be motivated to contribute to the organisational success, with an enhanced sense of wellbeing. We ensure we communicate with our employees on a regular basis and we consider their feedback and knowledge when making changes to our processes. We have an employee assistance service through one of our insurers that we encourage staff to utilise if they wish to talk over any matters of personal concern at any time. We have a good mix of long-serving employees and newer recruits which brings a good perspective when it comes to business development. When recruiting new or replacement personnel we ensure we enhance the skills and expertise already in place. Over the year we have introduced more employee focused polices into the business, such as flexible working, stress and mental wellbeing at work and a menopause policy, to name but a few. This is to ensure we are continuing to assess and meet the needs of our workforce.

Customer engagement
Our workstreams are project orientated and we therefore rely heavily on customer engagement and feedback on delivering exceptional products tailored exactly to our customers' requirements. We do not sell one standard product and therefore our relationships with our customers pre and post sale are essential to the future business development. We continue to advise and support our customers following a sale in order to assist with the integration of our sensors into their final products. We often provide troubleshooting advice on areas that are not related to our core business to assist the customer and maintain our reputation of providing excellent customer service. Other than delivering exceptional quality, it is because of this engagement and level of support that our customers come back to us for new and innovative future projects.

Supplier engagement
We have very good relationships with our suppliers and we work in conjunction with them to ensure our raw materials are delivered to our exact specification in the quantities in which we require at the times we require them. As a Group whose USP is the quality and durability of its products, we must ensure the components of our product meet the requirements of ourselves and our customers. We also liaise with our suppliers on the development of new materials to ensure the relationships continue to strengthen. We do not engage with suppliers that do not abide with the Modern Slavery Act guidance and we do not buy conflict materials. We also prohibit the use of child labour in our supply chain.

CASE STUDY

Zytronic supports local charitable recycling centre

Zytronic is proud to collaborate with Newcastle Wood Recycling CIC, a not-for-profit organisation which recycles wood from our Blaydon manufacturing facilities – mainly pallets and crates used to transport incoming raw materials used in our touchscreen production.

The wood is collected and graded for reuse as hand-crafted furniture, decorative products for homes, gardens and businesses or sold on for DIY material or firewood. Zytronic works with the Newcastle Wood Recycling CIC because its ethos aligns with our own social and environmental values and helps to create local jobs by supporting the training and employment of people facing barriers to work.

Newcastle Wood Recycling CIC was founded in September 2014 by Beth McDonagh. Beth has a background in youth and community work and also qualifications in carpentry. Whilst searching online for reclaimed wood, she discovered the Community Wood Recycling initiative, which inspired her to establish her own social enterprise in Newcastle.

Newcastle Wood Recycling CIC's main objective is to divert wood from the local waste stream through the wood recycling service, whilst creating employment, training and volunteering opportunities to people in the community.

Chris Thompson, Quality and Environmental Manager at Zytronic, said: "As an ISO 14001 accredited manufacturer we make it a priority to manage waste effectively and sustainably, by using the services offered by Newcastle Wood Recycling CIC. This has allowed us to help reduce waste whilst also supporting those in our local community to gain new skills and training. The service we receive from Newcastle Wood Recycling CIC is second to none, and Zytronic would not hesitate to recommend its services to other businesses operating in the North East."

CONTINUALLY ASSESSING RISKS

The Board regularly carries out a robust assessment of the principal risks facing the Group, including those that threaten the business model, strategy, future performance, solvency and liquidity. Principal risks have been identified based on the likelihood of occurrence and the severity of the impact on the Group, and have been identified through the application of policies and processes outlined below.

Managing our risks

The Board is ultimately responsible for the overall risk management system and internal controls applied throughout the Group. The nature of any risks are reviewed including the possible triggering events and the aggregated impacts before setting appropriate mitigation strategies directed at the causes and consequences of each risk.

The risks are assessed in relation to the likelihood of occurrence and the potential impact of the risks upon the business and against a matrix scoring system which is then used to escalate risks within the Group.

Risk management structure

The responsibility for risk identification, analysis, evaluation and mitigation rests with the operational management team of the businesses and is regularly communicated to and reviewed by the Board. The operational management team is also responsible for reporting and monitoring key risks in accordance with established processes under the Group operational policies. Reporting within the Group is structured so that key issues can be escalated rapidly through the management team to the Board where appropriate.

Risks at a glance

	RISKS	IMPACT AND CHANGE IN 2022
A	Downward price pressures from competing technologies	→
B	Increasing costs of raw material supplies	↑
C	Reliance on key customers	↑
D	Risks associated with timing of customer projects and price reductions	→
E	COVID-19	↓
F	Advances in competing technologies	→
G	Managing increases in the overhead base	→
H	Risks associated with currency movements	→
I	Cyber security risk	→

Key: → Unchanged ↑ Adverse ↓ Improved

RISK DESCRIPTION	MITIGATING ACTIONS	POTENTIAL FINANCIAL IMPACT	RISK APPETITE LEVEL	CHANGE

Downward price pressures from competing technologies

This is most prevalent in the lower valued touch sensor sector dominated by resistive, capacitive and surface acoustic wave touchscreens. However, price pressures in those markets do have a knock-on effect on prices throughout the industry.	Management has successfully met these challenges to date by re-designing and re-engineering the ZYTOUCH® touch sensor and developing the ZYPOS® touch sensor. This has enabled the Group to reduce the cost of manufacture and therefore the sales price for subsequent touch sensor designs and has allowed the Group to enter markets that were previously closed to it on price grounds. The Group also introduced the MPCT™ ASIC and family of controllers under the ZXY500™ series and, in conjunction, new FPC tail designs and sensor configurations. These provided industry-leading narrow border considerations, which had been configured based on years of customer feedback and market desire. These are currently the most popular controller of choice for the Group's customers. The Group has concluded the development of its own mixed metal oxide coating as a conductive medium solution to enable it to offer an alternative to its micro-fine filament sensing system.	Major	1	Unchanged This remains a high profile area which is why the Group continues to advance and develop its product offering to enable it to continue to be a market leader.

Increasing costs of raw material supplies

There are continual upward pressures on the cost of raw material supplies, many arising from increases in oil prices and energy costs. Raw materials are also purchased in US Dollars and Euros and movements in exchange rates can affect the pricing.	Management continually reviews the sources and costs of raw material supplies, the design of the Group's products and the operational processes that are used in their manufacture. Where possible, it uses increases in volume purchases to obtain price reductions, discounts and improved specifications. The Group has had to continue to work closely with its suppliers over the year to ensure continuity of supply of its electronic components. This global shortage continues to impact and is expected to continue to impact over the next twelve months.	Major	2	Adverse Remains a high risk due to the ongoing shortage of electronic components. Cost increases have also been observed over other raw materials in the year.

Reliance on key customers

At present the Group gets 33% of its revenue from two key customers. The risk to the Group is the loss of one or the other of these customers with revenues not being replaced by others.	The nature of the business often means that when a customer is brought into the Group it stays loyal for a long period due to the lengthy engagement process from initial discussion to the raising of the purchase order. It is also difficult for a customer to design out the product once it has been chosen to be incorporated into its product offering. Zytronic's record of excellent customer service pre and post-product sale is a big factor in maintaining the strong relationship that occurs with most of its customers. These factors help mitigate the risk of losing key customers. The Group constantly seeks new and increasing opportunities to replace and add to revenue when existing projects naturally come to their conclusion. The Group constantly strives to have a diversified customer base with multiple projects over different time periods occurring at any one time.	Major	2	Unchanged This risk has been moved to high at present whilst the Group continues its recovery from the COVID-19 pandemic. The Group is constantly monitoring its customer base and where the new opportunities are arising from.

Impact and change:

- Unchanged
- Adverse
- Improved
- Major
- Moderate
- Minor

Links to strategy:

- Innovate
- Grow
- Invest

Appetite:

1. Acceptable
2. Review
3. Unacceptable

RISK DESCRIPTION	MITIGATING ACTIONS	POTENTIAL FINANCIAL IMPACT	RISK APPETITE LEVEL	CHANGE
Risks associated with timing of customer projects and price reductions				
One of the main risks to the business is that of the timing of customer projects, where, as a component supplier, the Group is wholly reactive to its customer demands. The Group has to also consider the impact of customer price reduction requests.	The demands of the Group's customers are not something that can be controlled, so in order to mitigate this risk the Group constantly strives to have a diversified customer base with multiple projects over different time periods occurring at any one time. A project log, via the CRM system, is regularly reviewed to ensure that up-to-date information regarding pipeline projects is captured. The Group considers any price reduction requests from its customers and tries to offset this with product re-designs. As the global economy returned to more normal levels the Group saw an increase in orders from its current customer base. However, the Group is conscious that recovery for all companies may be slower than expected and continues to be cautious in its view on when normality will resume.	Major	2	Unchanged This continues to be a high risk at present as our customers' recovery post COVID-19 continues.
COVID-19				
The COVID-19 pandemic has continued to impact the Group over the course of the year and has delayed a return to normal trading levels.	Global economic disruption did continue to be a problem for the Group over the year, in particular in the first half. Travel restrictions and expo postponements meant that the Group's prospecting activities have taken longer to return to normal levels. The Group also experienced more caution from its customers in the commencement date of new capital projects. The health and safety of our employees continues to be of paramount importance. As the government relaxed social distancing restrictions the Company did the same, but not without feedback from its employees as to their views on the changes.	Minor	1	Improved This is becoming less of a risk now for the Group as the world appears to have the virus under control.
Advances in competing technologies				
A risk to the Group's business is that of advances in competing technology, whereby a new, better touch sensor technology is created.	Management is very conscious of this and monitors competitors' developments and changes within the whole industry. By continually developing and evolving its own technologies, the Group expects to build upon its competitive strengths and thereby keep its technology ahead of its competitors. In order to protect itself the Group has applied for and had patents successfully granted. A further patent application has been initiated during the year and the Group has twelve patents granted in total.	Moderate	3	Unchanged The Group is always looking to develop its product offerings and to protect itself from its competition through its internally generated intellectual property.

Impact and change:

- Unchanged
- Adverse
- Improved
- Major
- Moderate
- Minor

Links to strategy:

- Innovate
- Grow
- Invest

Appetite:

1. Acceptable
2. Review
3. Unacceptable

RISK DESCRIPTION	MITIGATING ACTIONS	POTENTIAL FINANCIAL IMPACT	RISK APPETITE LEVEL	CHANGE
Managing increases in the overhead base				
Inflation in the UK, as measured by the Consumer Price Index ("CPI") is currently increasing and is driven by broad-based cost increases. This could create a problem for the Group where suppliers pass on these costs to their customers. Wage inflation, increased energy costs and the provision of services could have a direct impact on the Group's underlying cost base and profitability.	The Group can control some of these factors; for example, it has ensured it has mitigated against the increased utility costs due the "purchase ahead" strategy it has in place. However, there are costs, such as increases in travel costs and wage inflation, that it will have to bear. The Group constantly monitors all of these costs against its sales pricing models to try to mitigate margin erosion.	Moderate	1	Unchanged. This risk is unchanged from the previous year.
Risks associated with currency movements				
A large proportion of the Group's sales are denominated in US Dollars and Euros, so the Group is subject to risks associated with currency movements. It is the Group's policy to manage these risks and provide a degree of certainty for cashflows into the UK without taking the risks of speculative positions.	Natural hedging is adopted to manage currency risk, whereby goods and services are sometimes sourced in Euros and US Dollars. Surplus currency is then protected through the use of forward foreign exchange contracts for a period of up to four months ahead in line with the working capital cycle.	Moderate	1	Unchanged. The Group sees this as a moderate risk due to the protection mechanisms in place, but will be impacted by any movements in currency.
Cyber security risk				
The risk to the Group is that of unauthorised access to or external disclosure of Group information, including those caused by "cyber attacks".	Management has implemented technical and procedural controls to minimise the occurrence of information and financial security and data protection breaches. Access to information is only provided on a "need-to-know" and "least privilege" basis consistent with the user's role and also requires the appropriate authorisation. Where sensitive data is made available to third parties it is done under confidentiality agreements. Controls in this area have been tightened over the year and the Group continues to monitor advancements in this area.	Moderate	2	Unchanged. No change to the risk but management continues to take appropriate action to minimise any potential threat.

Impact and change:

Unchanged
Adverse
Improved

Major
Moderate
Minor

Links to strategy:

Innovate
Grow
Invest

Appetite:

1 Acceptable
2 Review
3 Unacceptable

STRATEGIC REPORT

DIVIDEND INCREASE OF 47%

"The 2022 financial year has been another year of continued progression, despite the continuing impacts of the COVID-19 pandemic and the associated global lockdowns continuing to affect the operations of the Group, as well as strong macro-economic headwinds and industry-wide electronic component shortages.

Financial review

Zytronic achieved another year of EBITDA growth, albeit a modest increase to £1.5m compared to that of the prior year of £1.4m, and an increase in profit before tax of £0.2m to £0.7m (2021: £0.5m). The continued strong cash position will allow the Group to further invest in opportunities to deliver future growth.

Group revenue

It is pleasing to report that Group revenue has increased by 5.6% over the year to £12.3m (2021: £11.7m), with recovery being observed in the Gaming and Vending markets in particular, offsetting the expected and well-documented decline in the Financial market. The Gaming market, with revenues of £4.7m, accounted for 38% of overall Group revenue whilst Vending revenues of £3.6m accounted for 29%. The Financial market, which was for a number of years the Group's biggest revenue generator, displayed revenues of £1.2m, accounting for only 10% of overall sales. The Group continues to work closely with its key customers and potential customers on new opportunities for future revenue growth.

Gross margin

Reported gross margin for the year improved marginally to 30.5% (2021: 30.3%) with a number of factors influencing this closing position:

- increased sales of the larger format, bespoke sensors over the year, in particular into the Gaming market, brought margin benefits;
- the Group was not exposed to the significant price rises in utility costs over the year as its strategy of purchasing the commodities ahead mitigated against this;
- the well-highlighted semiconductor shortages had a negative impact on the cost of materials to the Group, as the sourcing of those came at a higher cost than in previous times. There were also a number of other raw material price rises over the period as suppliers were impacted by their own procurement issues and rising utility costs, subsequently negatively impacting gross margin;
- in October 2018, the Group negotiated an 18-month pay award with its employees taking it through to April 2020. However, as the pandemic started to impact, the decision was made not to enter into pay negotiations over this period. Subsequently, in April 2022, the Group was conscious of this prolonged situation and negotiated an agreeable and deserved pay award to all its employees for the benefit of maintaining retention, but at the same time increasing the costs of production;
- the recruitment of additive production personnel was a challenge over the year and the ability to source willing labour was problematic and ultimately impacted on costs. Feedback received on this matter from our manufacturing peer group was consistent with the Group's situation; and
- commissions payable over the year was higher as revenues generated through channel partners increased, particularly in Gaming.

Profit before tax

Profit before tax over FY22 increased to £0.7m (2021: £0.5m) due to the improvements in gross profit and savings achieved in administration costs. Administration costs were reduced by £0.1m over the year, but are expected to increase over the coming year as the business continues with its essential face-to-face prospecting activities. The FY22 figure also benefited from a reduction in professional fees compared to the prior year, as the costs of the successful capital reduction exercise and return of surplus cash to shareholders were higher previously. As with the direct workforce, administration staff were also remunerated for their continued efforts in the year. The Group continues to be mindful of the current political situation and the rising costs of living for all employees and would expect that these considerations will have an impact going forward.

Tax

The Group continues to utilise all available reliefs, which have a positive impact on the rate of tax it pays. The effective tax rate for the year is 13% and £0.1m (2021: 10%, < £0.1m). The UK government has increased the rate of corporation tax from 1 April 2023 to 25% from 19% and the Group expects its effective tax rate to therefore increase over the medium term.

Earnings per share

The ordinary shares in issue at the start of the year of 11,419,152 were further reduced over the period as the Group undertook a share buyback programme under the authorities obtained at the two prior Annual General Meetings in order to return the surplus cash. This programme proved to be successful with the Group purchasing 1,257,415 shares in the period at a weighted average price of 161p and returning £2.0m of cash to shareholders. The resultant number of shares in issue at the year-end are 10,161,737.

With profits after tax of £0.6m arising, this has generated an EPS of 5.6p (2021: 3.0p).

Dividend

Following a return to profitability in FY21 the Group declared a final dividend of 1.5p (2020: £Nil) costing £0.2m. With another year of increased profitability, the Group has again proposed to continue to pay a final dividend, this year of 2.2p, costing £0.2m and an increase of 47% over the prior year. Subject to shareholder approval, this will be paid on Friday 24 February 2023 to those on the Register as at close of business on Friday 10 February 2023.

Capital expenditure

Investment in capital expenditure, particularly in R&D development, is a key enabler in the future success of the Group. This was improved upon in FY22 with £0.5m being incurred in combined costs of tangible and intangible assets (2021: £0.3m). The R&D department continued its work in investments in patents, with another new patent being applied for, and it was also active in a number of other key development areas as described in the Operational review. During the second half of the year the Group commenced investment in a new ERP system implementation, which will enable it to have access to more production data. This will continue into the year ahead. There was also spend on other replacement and additive assets over the year. Depreciation and amortisation reduced slightly over FY22 to £0.8m (2021: £1.0m), which has been impacted by the lower investment over the previous two reporting periods, due to uncertainty arising around COVID-19.

Cash position

Cash at the beginning of the year was £9.2m and closed at £6.4m, with the biggest cash expense being the share buyback exercise as described earlier, which reduced the cash position by £2.0m. Working capital, as the Group had expected, increased over the period due to both the increase in stocks of £0.7m and debtors of £0.8m. Stocks were increased over FY22 as commitments to secure more electronic control board stock were made as the world responded to a supply shortage of various electronic components, particularly semiconductors. The supply of adhesives and hardcoat polyester film, which was a problem in the previous two years, returned to more normal levels but, also contributed to increasing stock over the period. The Group also observed price rises across several key raw materials, increasing the valuation of its holding at the year-end.

The increase to debtors at the year-end was in the main due to an overdue debt from one particular slow paying debtor of £0.4m. The Group controlled this situation by postponing any further deliveries to the customer until the debt was recovered. The Group, whilst frustrated with the customer, did not see the need to provide for this debt as it had complete confidence it would be repaid which proved to be correct. Aside from this one-off situation the Group has a very good history of cash collection which continued over the year, with no bad debts arising. What has been noted over the year is that there is a change in customer expectations for extended credit terms, most likely as a result of the pandemic, and contributing to the overall increase in working capital.

Cashflow used in investing activities was £0.5m (2021: £0.3m), wholly due to the costs of investment in capital expenditure. The Group also returned to paying dividends over the year at a cost of £0.2m (2021: £Nil).

The Group maintains its overdraft facility of up to £1.0m, which is available for use in any of its three currencies. The Group also has an FX policy in place whereby it is hedged in both US Dollars and Euros for a period of up to four months ahead to correspond with its working capital policies and currency requirements. Following the Bank of England's decision to increase the rates of interest, the Group is very active in ensuring it is maximising its interest earning potential, whilst continuing to meet the cashflow demands on the business.

The Group has no debt and, with strong cash levels, remains in a strong financial position for the year ahead.

Claire Smith
Group Finance Director
12 December 2022

The strategic report has been approved by the Board of Directors and signed on its behalf by:

Mark Cambridge
Acting Executive Chair
12 December 2022

Claire Smith
Group Finance Director

ABOUT OUR LEADERSHIP TEAM

The Board brings a balance of relevant backgrounds and experience to its discussions.

Mark Cambridge
Acting Executive Chair

Experience and skills
Mark became Chief Executive of Zytronic plc in 2008, after his appointment to the Board in 2007. Mark has a BSc (Hons) in Materials Science and a Securities Institute Certificate in Corporate Finance and is a Fellow of the IoD. Prior to Zytronic, Mark worked for the United Kingdom Atomic Energy Authority, George Blair plc and the Romag Group. Within the Zytronic Group, Mark has also held the positions of Technical and Quality Director, Business Development Director and Sales and Marketing Director of the trading subsidiary, Zytronic Displays Limited, whilst being appointed its Managing Director in 2006 and President of its US subsidiary, Zytronic Inc, in 2012, positions he continues to hold. Mark was appointed Acting Executive Chair on 4 October 2022.

Claire Smith
Group Finance Director

Experience and skills
Claire graduated in 2000 in Business and Finance and attained CIMA accreditation in 2006 and a certificate in International Cash Management in 2011. She held various positions within Procter & Gamble and the NAAFI before joining Zytronic Displays Limited in April 2007 as Group Financial Controller. In 2012, Claire was appointed Finance Director of the trading subsidiary, Zytronic Displays Limited, and Finance Director of Zytronic plc in January 2014. Claire is also the Group Company Secretary and advises the Group on its regulatory and legal matters.

A R

Mark Butcher
Independent Non-executive Director

Experience and skills
Mark is Chair of the audit and remuneration committees of the Board and has been a Director of the Company since March 2022. Mark has over 20 years' experience in the City where he was an Executive Director of GPG (UK) Holdings plc, which was the UK investment arm of Guinness Peat Group plc. In addition to investment management, he has wide experience in international accounting, corporate finance and banking transactions. He has sat as a Non-executive Director on the boards of a number of public and private companies and is currently a Non-executive Director of Redde Northgate plc, AssetCo plc and National Milk Records plc. He is Chair of the audit committees of Redde Northgate plc and National Milk Records plc. Mark graduated with a Bachelor of Commerce degree from the University of Cape Town and qualified as a Chartered Accountant in South Africa.

Board composition

Executive
2
Non-executive
1

Board meetings

Attendance
86%

Mark Butcher was not in post for all Board meetings over the year

Board skills

Strategy

Technology

Business development

Digital

Financial

Transformation

Key

A Member of audit committee

R Member of remuneration committee

Committee Chair

All of the Directors served throughout the financial year and up until the date of signing these financial statements.

ADAPTING TO CIRCUMSTANCES

As an AIM-listed company, and in line with the London Stock Exchange's changes to the AIM Rules requiring all AIM-listed companies to adopt and comply with a recognised corporate governance code, the Board has adopted the Quoted Companies Alliance ("QCA") Corporate Governance Code. Following the unexpected resignation due to illness of the previous Chair, David Buffham, and while the recruitment of at least one further independent Non-executive Director continues, the Board has made changes to provide additional control at this time. The Directors have agreed that a quorum will not ordinarily be established at a meeting constituted of solely Executive Directors. It has further agreed among its current members that all Board decisions during this time will either be agreed unanimously, or one of the Executive Directors will abstain from voting on the matter in question and the Independent Non-executive Director will therefore carry the casting vote.

Mark Cambridge
Acting Executive Chair

This Corporate governance statement, together with the information provided below and in the Audit committee report, explains how Zytronic's governance framework works and how it applies the principles of business integrity, high ethical values and professionalism in all its activities. As a Board, we recognise that we are accountable to shareholders for good corporate governance, and we seek to promote consistently high standards of governance throughout the Group that are recognised and understood by all. The Group promotes this culture within its strategy and management of risks and is continually analysing this, from information provided by the executive management team, to ensure compliance.

The workings of the Board and its committees

The Board

Throughout the year, Mark Cambridge, the Acting Executive Chair, Claire Smith, the Group Finance Director, and Mark Butcher, the Independent Non-executive Director, were members of the Board.

The Acting Executive Chair and the Non-executive Director demonstrate a range of experience and sufficient calibre to bring independent (and non-independent) judgement on issues of strategy, performance, resources and standards of conduct, which is vital to the success of the Group.

The Directors' qualifications are listed on page 28. They keep their skills relevant and up to date by continuous professional development, attending seminars and reading financial and trade publications. Mark Cambridge is also a Fellow of the Institute of Directors.

The Board met seven times over the year. Its direct responsibilities include reviewing annual and quarterly forecasts, reviewing trading performance, approving significant capital expenditure, ensuring adequate funding, setting and monitoring strategy, examining major acquisition possibilities and reporting to shareholders. Between meetings there is regular informal discussion between the Acting Executive Chair, the Group Finance Director and the Non-executive Director.

Role	Responsibilities	
Acting Executive Chair	▸ leadership of the Board and ensuring open and effective communication between the Executive and Non-executive Director; ▸ ensuring Board meetings are effective by setting appropriate and relevant agenda items, creating an atmosphere whereby all Directors are engaged and free to enter healthy and constructive debate; ▸ day-to-day management of the Group's business and implementation of the Board-approved strategy;	▸ acting as Chair of the executive committee and leading the senior management team in devising and reviewing Group development for consideration by the Board; ▸ responsibility for the operations and results of the Group; and ▸ promoting the Group's culture and standards.
Finance Director	▸ providing strategic and financial guidance to ensure the Group's financial commitments are met; and	▸ developing all necessary policies and procedures to ensure the sound financial management and control of the Group's business.
Non-executive Director	▸ constructively challenging management proposals and providing advice in line with their respective skills and experience;	▸ helping develop proposals on strategy; and ▸ having an integral role in succession planning.
Company Secretary	▸ responsible for advising the Board on all governance matters; and	▸ ensuring that good information flows within the Board and its committees, and between senior management and the Non-executive Director, as well as facilitating induction processes and assisting with professional development as required.

The workings of the Board and its committees continued

The Board continued

The Acting Executive Chair and the Non-executive Director have a particular responsibility to ensure that the strategies proposed are fully considered.

The Board members acknowledge that they have a collective responsibility and legal obligation to promote the interests of the Group and are collectively responsible for defining corporate governance arrangements. However, the Acting Executive Chair acknowledges that the ultimate responsibility for the quality of, and approach to, corporate governance lies with him.

To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed by the Company Secretary to all Directors in advance of Board meetings. The Acting Executive Chair ensures that the Directors are able to take independent professional advice as required, at the Group's expense. This has not been requested during the year.

The standing committees established by the Board are the remuneration committee and the audit committee, each of which operates within defined terms of reference.

A nominations committee has not been established as the Board is small. The nominations process prior to Board appointments takes into account the views of all existing Board members and some advisers. Any Director appointed to the Board since the last Annual General Meeting is required to seek election at the subsequent Annual General Meeting. All Directors are subject to re-election at least once every three years.

The number of meetings of the Board, and the attendance of Directors, is shown on page 28.

Audit committee

The Audit committee report and information are disclosed on page 32.

Remuneration committee

The Remuneration report and information are disclosed on pages 33 and 34.

Relations with shareholders

Communication with shareholders is given high priority. There is regular dialogue with major and/or institutional shareholders, including presentations after the Group's announcements of the half year and full year results in May and December, respectively.

Presentations are also made to analysts and journalists at those times to present the Group's results and report on developments. This assists with the promotion of knowledge of the Group in the investment marketplace and with shareholders. The financial statements include a review of the business and future developments. These financial statements, the presentations and other financial information relating to the Group are also available on the Group's website, www.zytronicplc.com.

Board effectiveness

The Board does not have a formal Board effectiveness process but the Acting Executive Chair believes the Board has performed effectively over the year. The key strategic issues and risks have been discussed in an open and honest forum with decisions being made based on the factual data presented. Each Board member has a particular area of expertise and has utilised this to provide insightful comment and contribution to the business demands of the Group. The Group is mindful of succession planning and has discussions on this matter. The Board feels it has a good balance of skills and expertise; however, all members are regularly challenged and assessed at the Board meetings.

Following the half year and year-end presentations of results, the Executive Directors report to the Board on the feedback received from journalists, analysts and shareholders. In addition, the Group's Nomad produces a feedback report from those meetings which is made available to all Directors.

The Executive Directors also report to the Board on any meetings with shareholders or institutional investors that may take place at other times of the year.

The Board uses both the annual report and financial statements and the Annual General Meeting to communicate directly with private and institutional investors and welcomes their participation. In addition to this, the Board has engaged with Investor Meet Company, an online presentation portal to allow it to communicate the results to a wider audience. The Acting Executive Chair aims to ensure that the Chair of the audit and remuneration committees is available at the Annual General Meeting to answer questions.

Details of resolutions to be proposed at the Annual General Meeting on 9 February 2023 can be found in the Notice of Annual General Meeting on pages 67 and 68.

In addition, the Independent Non-executive Director is available to shareholders if they have any concerns which contact through the normal channels of the Acting Executive Chair or the Group Finance Director has failed to resolve or for which such contact is inappropriate.

Internal control

The Board is responsible for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. As an AIM-listed company, the Group has adopted the QCA Code and follows its guidance. The Group will either comply or explain on the governance rules as set by the QCA. The Directors set out overleaf some of the key aspects of the Group's internal control procedures.

An ongoing process, in accordance with the guidance of the Turnbull Committee on internal control, has been established for identifying, evaluating and managing the significant risks faced by the Group.

The process has been in place for the full year under review and up to the date of approval of the annual report and financial statements. The Board regularly reviews this process as part of its review of such risks within Board meetings. Where any weaknesses are identified, an action plan is prepared to address the issues and is then implemented.

The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board.

Authority to operate the trading subsidiary, Zytronic Displays Limited, is delegated to its Board of Directors and through it, it is run by its management, within limits set by the Board. The appointment of Executives to the most senior positions within the Group requires the approval of the Board.

Each year the Board approves the annual budget. Key risk areas are identified, reviewed and monitored. Performance is monitored against budget, relevant action is taken throughout the year and quarterly rolling forecasts are prepared to capture more accurate and up-to-date information. The reports reviewed by the Board include reports on operations, R&D, HR and health and safety as well as financial matters.

Capital and development expenditure is regulated by a budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board for approval. Reviews are carried out after the purchase is complete.

The Board requires management to explain any major deviations from authorised capital proposals and to seek further sanction from the Board.

Due diligence work is carried out if a business is to be acquired.

The Group has a whistle-blowing policy and procedures to encourage staff to contact the Acting Executive Chair if they need to raise matters of concern other than via the Executive Directors and senior management.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report. The financial position of the Group, its cashflows, liquidity position and borrowing facilities are also described within the Financial review section of the Strategic report. In addition, note 18 to the financial statements includes the Group's objectives and policies of its financial risk management and details of its financial instruments and hedging activities and its exposure to credit risk and liquidity risk.

The Group's business is well diversified, with relationships with customers and suppliers across different geographic areas and industries. It also has considerable financial resources. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

2022 key shareholder engagements

January
- Notice of AGM and additional resolution
  - RNS

February
- Proposed share buyback
  - RNS
- Purchase of own shares
  - RNS

March
- Purchase of own shares
  - RNS
- Trading update
  - RNS
- AGM
  - Meeting
- Board changes
  - RNS

April
- Purchase of own shares
  - RNS

May
- Purchase of own shares
  - RNS
- Interim results
  - Meetings/RNS/webcast
- Completion of share buyback
  - RNS

August
- Trading update
  - RNS

October
- Board updates
  - RNS

December
- Preliminary results
  - Meetings/RNS/webcast

ENSURING THE INTEGRITY OF INFORMATION REPORTED

The audit committee currently comprises the Non-executive Director, Mark Butcher (Chair). The Board considers that Mark has the balance of skills and experience required to discharge his duties effectively. The Board is collectively responsible for the approval of the accounts.

The audit committee is responsible for reviewing a wide range of matters, including the half year and annual financial statements, and monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders. The audit committee advises the Board on the appointment of the external auditor and on its remuneration both for audit and non-audit work, and discusses the nature, scope and results of the audit with the auditor.

The audit committee keeps under review the cost effectiveness of the auditor. It also reviews the extent of the non-audit services provided by the auditor and reviews with it its independence and objectivity. The Chair of the audit committee reports the outcome of audit committee meetings to the Board and the Board receives minutes of the meetings.

The committee meets officially every year, to review the audit planning document and to review the annual financial statements, and has direct access to Crowe U.K. LLP ("Crowe"), the Group's external auditor, at any point during the year. The committee extends its invitation to attend the audit committee meetings to the Executive Directors, once the reviews of the annual audit process have been concluded. Any issues arising from these papers can be communicated to the Group's auditor either by the audit committee Chair or the Group Finance Director.

The number of meetings of the committee, and the attendance of members, is shown below.

The following key areas of risk and judgement have been identified and considered in relation to the business activities and financial statements of the Group:

Risk of fraud in revenue recognition and cut-off

Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. The Group has varying incoterms (e.g. EXW, DAP, CPT and DDP) in place for key customers which management considers increases the risk around performance conditions being incorrectly applied, resulting in the incorrect cut-off of revenue at the year end. The audit focus was around the overstatement of revenue through incorrect cut-off, and management override, where there are manual adjustments posted to revenue. The committee concurred with the management and auditor's assessment that revenue has been recognised in accordance with the requirements of the accounting standard IFRS 15 and that there are no cut-off errors or indicators of fraudulent reporting.

Capitalisation of development expenditure

Product development is critical to the Group to maintain and advance its product offering to its customers. The Group capitalises development expenditure on ongoing and new projects in the year, which can be of considerable expense and open to management judgement. The audit findings have concluded that the costs of development have been appropriately considered under the accounting standard IAS 38. The committee has concurred with this outcome following its own review of the papers presented.

The Group's management and auditor confirmed to the audit committee that they were not aware of any material misstatements in the reported financial statements. Having reviewed the reports received from management and the auditor, the committee is satisfied that the key areas of risk and judgement have been appropriately addressed in the financial statements and that the significant assumptions used in determining the value of assets and liabilities have been properly appraised and are sufficiently robust.

Response to key audit matters

The committee considers that Crowe has carried out its duties as the auditor in a diligent and professional manner. As part of the review of auditor independence, Crowe has confirmed that it is independent of the Group and has complied with applicable auditing standards. In accordance with professional guidelines, the engagement partner is rotated after five years at most and the current partner is in their third year of engagement. In assessing the auditor's effectiveness, the committee:

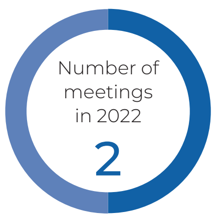
- challenged the work undertaken by the auditor to test management's assumptions and estimates in the key risk areas;
- reviewed reports received from the auditor on these and other matters; and
- received and considered feedback from management.

In addition, the Chair of the committee has the ability to discuss by telephone and in person with the audit lead partner outside the formal committee process throughout the year.

Having completed its review, the audit committee is satisfied that Crowe remained effective and independent in carrying out its responsibilities up to the date of signing this report.

After careful consideration of the advice of the audit committee, the Board has concluded that the 2022 annual report is fair, balanced and understandable and provides the necessary information for the Group's shareholders to assess the Group's risks, performance, business model and strategy.

Audit committee meetings



Attendance
50%*

* There has only been one meeting since Mark Butcher's appointment.

ALIGNING OF EXECUTIVE MANAGEMENT AND SHAREHOLDER INTEREST

As the Company is AIM listed, the Directors are not required, under Section 420(1) of the Companies Act 2006, to prepare a Directors' remuneration report for each financial year of the Company and so Zytronic plc makes the following disclosures voluntarily, which are not intended to, and indeed do not, comply with the requirements of Section 420(1) of the Companies Act 2006.

The remuneration committee is responsible for determining the remuneration and other terms of employment for the Executive Directors of Zytronic plc and the Directors of its trading subsidiary, Zytronic Displays Limited. The committee is composed of the Independent Non-executive Director, Mark Butcher, as its Chair. In determining remuneration for the year, the committee has given full consideration to the requirements of the UK Corporate Governance Code.

The number of meetings of the committee, and the attendance of members, is shown below.

Remuneration policy

The remuneration of Executive Directors is determined by the committee and the remuneration of the Non-executive Director is approved by the full Board of Directors.

The key objectives of the committee in determining the remuneration packages of Executive Directors are:

- the recruitment, retention and incentivisation of executive management of the right calibre; and
- the alignment of executive management and shareholder interests.

The remuneration packages of Executive Directors comprise the following elements:

Basic salary and benefits

Basic salaries for Executive Directors are reviewed annually having regard to individual performance and market practice. In most cases, benefits provided to Executive Directors comprise health insurance and contributions to a group personal pension scheme. Details of emoluments for the Directors of Zytronic plc are set out on page 34.

Annual bonus

For the financial year 2022 there was no bonus payable. The remuneration committee believes that this is a reasonable situation given the financial performance of the Group.

The remuneration committee retains its right to provide special discretionary bonuses where deemed appropriate.

Service contracts

Mark Cambridge and Claire Smith each have a service contract with a notice entitlement of six months.

The committee considers the Directors' notice entitlements to be appropriate as they are in line with the market and take account of the Directors' knowledge and experience. There are no special provisions for predetermined compensation in the event of loss of office.

Non-executive Director

The fees of the Non-executive Director are determined by the full Board within the limits set out in the Memorandum and Articles of Association. The Non-executive Director is not eligible for bonuses, pension benefits or share options.

Directors' emoluments (audited)

Emoluments of the Directors for the year ended 30 September 2022 are shown in the table overleaf.

Pension contributions (audited)

During the year, the Group made annual pension contributions for Mark Cambridge and Claire Smith, Executive Directors, to a group personal pension scheme (i.e. a defined contribution scheme). Neither benefits in kind nor bonuses are pensionable.

Details of contributions payable by the Company are:

Director	**2022 £'000**	2021 £'000
Mark Cambridge	**14**	13
Claire Smith	**8**	8
Total	**22**	21

Remuneration committee meetings

Number of meetings in 2022
1

Attendance
100%

Directors' shareholdings (audited)

Beneficial interests of the Directors in the shares of the Company, including those of their immediate families, are shown below:

	30 September 2022		30 September 2021	
	Number	**%**	Number	%
Mark Cambridge	**92,458**	**0.91**	92,458	0.81
Claire Smith	**42,381**	**0.42**	42,381	0.37
Mark Butcher	**—**	**—**	n/a	n/a

There has been no change in Directors' shareholdings since 30 September 2022.

Directors' emoluments for the year ended 30 September 2022 (audited)

	Salary £'000	Fees £'000	Benefits £'000	**Total emoluments* 2022 £'000**	Total emoluments* 2021 £'000
Non-executive Chairman					
Tudor Davies**	—	35	—	**35**	63
Executive					
Mark Cambridge	161	—	2	**163**	153
Claire Smith	97	—	1	**98**	97
Non-executive					
Mark Butcher***	—	18	—	**18**	—
David Buffham****	—	44	—	**44**	28
	258	97	3	**358**	341

* Excluding pension contributions.

** Tudor Davies retired from the Board on 3 March 2022.

*** Mark Butcher was appointed to the Board on 4 March 2022.

**** David Buffham resigned from the Board on 31 October 2022.

Share price during the year

During the year to 30 September 2022, the highest share price was 195.0p and the lowest share price was 113.0p. The market price of the shares at 30 September 2022 was 113.0p.

Directors' interests in material contracts

No Director was materially interested either at the year end or during the year in any contract of significance to the Group other than their employment or service contract.

The Directors present their annual report and financial statements for the year ended 30 September 2022.

The Group has chosen to, in accordance with Section 414c(ii) of the Companies Act 2006, set out in the Strategic report the following, which the Directors believe to be of strategic importance:

- review of the business; and
- financial risk management policy/principal risks and uncertainties.

Principal activities

Zytronic is the developer and manufacturer of a unique range of internationally award-winning touch sensor products. Zytronic's products incorporate an embedded array of metallic micro-sensing electrodes which offer significant durability, environmental stability and optical enhancement benefits to designers of system-integrated interactive displays for public access and industrial-type applications.

Zytronic is also the developer of ElectroglaZ™ technology, which is a bespoke lamination of non-conductive and conductive transparent glass. The arrangement allows power to be transferred across two or more individual layers within the laminate and tapped/extracted at the required locations to power multiple low power (<50V) devices. The delivery of this energy is wire/cable free and invisible to the user.

Likely future development

Our priorities for 2022/2023 are disclosed in the Strategic report on pages 16 and 17.

The Group will continue with its strategy of organic growth by enabling the R&D department to enhance on the current range of products and technologies to enable diversification further into its addressable market areas. In order to assist this future growth the Group is reviewing its present and potential marketing strategy following the appointment of a marketing specialist in the year.

The Group has also recently recruited another business development manager for the US territory to enable it to progress its sales growth opportunities in that region.

Capital management

Capital management is intended to ensure and maintain strong credit ratings and healthy capital ratios in order to support the Group's business and maximise shareholder value. It includes the monitoring of cash balances, available bank facilities, cashflows, dividend policy and retained reserves and gearing levels (borrowings net of cash balances divided by shareholders' equity).

Management ensures that the Group has sufficient facilities to provide the Directors with comfort on the Group's foreseeable needs and its liquidity position and to consider any acquisition possibilities. The Financial review includes a paragraph discussing the cashflows which occurred in the year ended 30 September 2022 and the overall net funds position.

No changes were made to these objectives, policies or processes during the years ended 30 September 2021 and 2022.

Research and development

The R&D department have continued to develop over the year, which has resulted in one further patent being applied for and three being granted.

Further details on the Group's R&D activities are included in the Operational review.

Results and dividends

The consolidated statement of comprehensive income is set out on page 40. The Group profit after tax amounted to £0.6m (2021: £0.4m). The Directors propose the payment of a final dividend of 2.2p, being the total dividend for the year (2021: 1.5p).

Directors

The Directors of the Company are shown on page 28. Any Board changes during the year are referenced in the Remuneration report. Mark Butcher was appointed to the Board on 4 March 2022. The emoluments and interests of the Directors in the shares of the Company are set out in the Remuneration report.

Statement of Directors' responsibilities in relation to the Group and Parent Company financial statements and annual report

The Directors are responsible for preparing the annual report and the Group financial statements in accordance with UK-adopted international accounting standards. The Parent Company financial statements are prepared in accordance with FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the Group and Parent Company financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group and Parent Company for that period. In preparing those financial statements the Directors are required to:

- present fairly the financial position, financial performance and cashflows of the Group and Parent Company (under FRS 101 the Parent Company is not required to report a statement of cashflows);
- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements of IFRS, in accordance with UK-adopted international accounting standards (the Parent Company reports under FRS 101), is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Parent Company's financial position and financial performance; and
- state whether the Group and Parent Company financial statements have been prepared in accordance with IFRS, in accordance with UK-adopted international accounting standards, subject to any material departures disclosed and explained in the financial statements (the Parent Company reports under FRS 101).

Statement of Directors' responsibilities in relation to the Group and Parent Company financial statements and annual report continued

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that the Group and Parent Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to the auditor

The Directors who were members of the Board at the time of approving the Directors' report are listed on page 28. Having made enquiries of fellow Directors and of the Company's auditor, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information (that is, information needed by the Company's auditor in connection with preparing its report) of which the Company's auditor is unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

Annual General Meeting ("AGM")

The AGM will be held at the office of Zytronic plc on 9 February 2023 at 1.00 pm. The Notice of Meeting accompanies this annual report and is also available on the Group's website at www.zytronicplc.com. Four resolutions will be proposed as special business.

The Directors consider that all the resolutions to be proposed at the AGM are in the best interests of the Group and it is their recommendation that shareholders support these proposals as they intend to do so in respect of their own holdings.

Auditor

A resolution to re-appoint Crowe U.K. LLP as the Company's auditor will be put to the shareholders at the forthcoming Annual General Meeting.

On behalf of the Board

Claire Smith
Company Secretary
12 December 2022

Registration number
03881244

Opinion

We have audited the financial statements of Zytronic plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 30 September 2022, which comprise:

- the Group statement of comprehensive income for the year ended 30 September 2022;
- the Group and Parent Company statements of changes in equity for the year ended 30 September 2022;
- the Group and Parent Company statements of financial position as at 30 September 2022;
- the Group statement of cash flows for the year then ended; and
- the notes to the financial statements, including significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK adopted International Accounting Standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2022 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted International Accounting Standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- reviewing the cash flow model provided by management and challenging the assumptions made;
- reviewing management's forecasts which show continued growth in both revenue and profitability. Our assessment therefore considered if this will be feasible in light of recent performance and economic conditions;
- checking the numerical accuracy of the forecast model;
- assessing past budgeting to help determine managements budgeting ability, as well as reviewing the October 2022 management accounts compared to forecast; and
- considering the cash position of the business as reported in the October 2022 management accounts and whether this is sufficient to meet the cash flow requirements for at least the next twelve months.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Overview of our audit approach

Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £75,000 (2021: £75,000), based on between 0.5 and 1 percent of group turnover. The trading Company (Zytronic Displays Limited) materiality was determined as £70,000 based on between 0.5 and 1 percent of turnover.

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment and is approximately £52,000 for the Group and £49,000 for the trading Company.

Overview of our audit approach continued

Materiality continued

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and directors' remuneration.

We agreed with the Audit Committee to report to it all identified errors in excess of £3,500 (2021: £3,000). Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

Overview of the scope of our audit

The Group and its subsidiaries are accounted for from one location in the UK. Our audit was conducted on site in person at the main operating location in the UK, including attendance at stocktake and a visit to carry out preliminary systems and controls work.

We performed an audit of the complete financial information of Zytronic plc and the two components, Zytronic Displays Limited and Zytronic, Inc.

Zytronic Displays Limited is a full scope component and Zytronic, Inc. is a review scope component with all audit work being carried out directly by the Group audit team.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Key audit matter	How the scope of our audit addressed the key audit matter
Revenue recognition Revenue is recognised in accordance with the accounting policy set out in the financial statements. Revenue is the key driver of the business and is used as an important benchmark by shareholders. We considered there to be a significant risk in respect of overstatement as this is the area considered to be most susceptible to management bias.	Our audit procedures consisted of: ▶ Assessing the design effectiveness and implementation of the relevant controls in place associated with revenue recognition. ▶ Validating that revenue is recognised in accordance with the accounting policies through testing an appropriate sample of revenue transactions to proof of delivery and cash receipts, as well as testing the cut off and checking post year end receipts. ▶ Assessing the appropriateness of the related disclosures in the financial statements, please refer to note 2 for further information.
Capitalisation of development costs Development costs are capitalised for both on-going and new projects during the year and include subcontract costs as well as internal labour costs. There is a risk that the carrying value of development costs may be incorrectly recognised. There has been a new ERP system introduced in the year and as such there are capitalised development costs in relation to this that also need to be correctly accounted for.	▶ We have assessed the appropriateness of development costs capitalised during our audit to assess whether costs are being correctly capitalised. ▶ Development costs capitalised in the year relate predominantly to the development of the new ERP system. We have been agreeing external costs to supporting invoices, whilst making sure they meet the criteria of capitalisation. ▶ We have also looked at supporting payroll records to assess whether capitalised payroll costs meet the requirements for recognition as an asset. ▶ We have corroborated revenue derived from current projects and expected future revenues from new projects developed during the year as well to assess they have been correctly recognised.

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

Other information

The directors are responsible for the other information contained within the annual report. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of our audit

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

Opinion on other matters prescribed by the Companies Act 2006 continued

- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on pages 35 to 36 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained an understanding of the legal and regulatory frameworks within which the Group operates, focusing on those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. The laws and regulations we considered in this context were relevant company law and taxation legislation in the UK being the principal jurisdiction in which the Group operates.

We identified the greatest risk of material impact on the financial statements from irregularities, including fraud, to be the override of controls by management. Our audit procedures to respond to these risks included enquiries of management about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals and reviewing accounting estimates for biases in particular where significant judgements are involved.

Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The potential effects of inherent limitations are particularly significant in the case of misstatement resulting from fraud because fraud may involve sophisticated and carefully organised schemes designed to conceal it, including deliberate failure to record transactions, collusion or intentional misrepresentations being made to us.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Evans (Senior Statutory Auditor)
for and on behalf of Crowe U.K. LLP
Statutory Auditor
Black Country House, Rounds Green Road
Oldbury, West Midlands B69 2DG
12 December 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Notes	**2022 £'000**	2021 £'000
Group revenue	2	**12,340**	11,683
Cost of sales		**(8,577)**	(8,146)
Gross profit		**3,763**	3,537
Distribution costs		**(258)**	(183)
Administration expenses		**(2,810)**	(2,901)
Group operating profit	3	**695**	453
Finance revenue	5	**10**	—
Profit before tax		**705**	453
Tax expense	6	**(94)**	(47)
Profit for the year		**611**	406
Other comprehensive income		**—**	—
Total comprehensive income		**611**	406
Earnings per share			
Basic	8	**5.6p**	3.0p

All activities are from continuing operations.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Equity share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2020	160	8,994	—	13,911	23,065
Profit for the year	—	—	—	406	406
Repurchase and cancellation of shares	(46)	—	46	(6,706)	(6,706)
At 30 September 2021	114	8,994	46	7,611	16,765
Profit for the year	—	—	—	611	611
Repurchase and cancellation of shares	(12)	—	12	(2,019)	(2,019)
Dividends	—	—	—	(170)	(170)
At 30 September 2022	**102**	**8,994**	**58**	**6,033**	**15,187**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2022

	Notes	2022 £'000	2021 £'000
Assets			
Non-current assets			
Intangible assets	9	**711**	733
Property, plant and equipment	10	**5,107**	5,370
		5,818	6,103
Current assets			
Inventories	11	**2,184**	1,435
Trade and other receivables	12	**2,957**	2,200
Cash and short term deposits	13	**6,403**	9,157
		11,544	12,792
Total assets		**17,362**	18,895
Equity and liabilities			
Current liabilities			
Trade and other payables	14	**1,055**	1,080
Derivative financial liabilities	15	**92**	16
Accruals	14	**560**	551
Government grants	16	**—**	26
Tax liabilities		**—**	121
		1,707	1,794
Non-current liabilities			
Deferred tax liabilities (net)	17	**468**	336
		468	336
Total liabilities		**2,175**	2,130
Net assets		**15,187**	16,765
Capital and reserves			
Equity share capital	19	**102**	114
Share premium	19	**8,994**	8,994
Capital redemption reserve	19	**58**	46
Retained earnings		**6,033**	7,611
Total equity		**15,187**	16,765

These financial statements have been approved by the Board of Directors and signed on its behalf by:

Mark Cambridge
Acting Executive Chair
12 December 2022

Claire Smith
Group Finance Director

Zytronic Group plc: Registered number 03881244

CONSOLIDATED CASHFLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Notes	**2022 £'000**	2021 £'000
Operating activities			
Profit before tax		**705**	453
Finance income		**10**	—
Depreciation of property, plant and equipment		**543**	629
Amortisation and write-off of intangible assets		**223**	379
Amortisation of government grant		**(26)**	(1)
Fair value movement on foreign exchange forward contracts		**76**	16
Loss on disposal of asset		**2**	23
Working capital adjustments			
(Increase)/decrease in inventories		**(749)**	897
Increase in trade and other receivables		**(757)**	(433)
Increase in trade and other payables and provisions		**106**	85
Cash generated from operations		**133**	2,048
Tax (paid)/received		**(224)**	48
Net cashflow (used in)/from operating activities		**(91)**	2,096
Investing activities			
Interest received		**7**	—
Payments to acquire property, plant and equipment		**(280)**	(179)
Payments to acquire intangible assets		**(201)**	(92)
Net cashflow used in investing activities		**(474)**	(271)
Financing activities			
Dividends paid to equity shareholders of the Parent		**(170)**	—
Repurchase and cancellation of shares		**(2,019)**	(6,706)
Net cashflow used in financing activities		**(2,189)**	(6,706)
Decrease in cash and cash equivalents		**(2,754)**	(4,881)
Cash and cash equivalents at the beginning of the year	13	**9,157**	14,038
Cash and cash equivalents at the year end	13	**6,403**	9,157

1. Accounting policies

(a) Authorisation of financial statements and statements of compliance

The financial statements of Zytronic plc and its subsidiaries (the "Group") for the year ended 30 September 2022 were authorised for issue by the Board of Directors on 12 December 2022 and the statement of financial position was signed on behalf of the Board by Mark Cambridge and Claire Smith. Zytronic plc is a public limited company, limited by shares, incorporated, domiciled and registered in England and Wales (company registration number 03881244). The Company's ordinary shares are traded on AIM. The address of the registered office is Whiteley Road, Blaydon-on-Tyne, Tyne and Wear NE21 5NJ.

The consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards. The Directors consider the following accounting policies to be relevant in relation to the Group's financial statements.

(b) Adoption of new and revised standards

There are no new accounting standards adopted in the year that have a material impact on the financial statements.

There are no new accounting standards effective in the next financial year or future reporting periods that are expected to have a material impact on the financial statements.

(c) Judgements and key sources of estimation uncertainty

The preparation of the Group's consolidated financial statements requires the Directors to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures at the date of the financial statements and the reported income and expense during the year. Although these judgements and assumptions are based on the Directors' best knowledge of the amounts, events or actions, actual results may differ from those estimates.

In the process of applying the Group's accounting policies, the Directors have made the following judgements concerning the future and other key sources of estimation uncertainty at the statement of financial position date which have the most significant effect on the amounts recognised in the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy given overleaf. Initial capitalisation of costs is based on management's judgement that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone and there is commercial interest in the product. Management applies judgement in determining that its development costs are development but as the nature of its development is progression from existing products it is comfortable in this judgement. Management applies judgement in the review of costs capitalised to determine whether any impairment should be recognised. Management also applies judgement in its impairment of its development costs and assesses this on a regular basis to ensure that any costs still capitalised continue to be commercially viable. As the development of products is progressive and there are still sales of legacy products, management is comfortable with this judgement.

(d) Key sources of estimation uncertainty

There are no key sources of estimation uncertainty at the statement of financial position date.

(e) Going concern

As stated in the Directors' report, the Directors believe there are no material uncertainties that call into doubt the Group's ability to continue as a going concern and the accounts have therefore been prepared on that basis. In light of the current climate in relation to rising costs such as wage inflation, raw material price increases and supply shortages and increasing overheads, the Directors have reviewed the Group's finances. In the short term, cash holdings are sufficient to ensure adequate cashflow for the foreseeable future. In the medium to long term, plans for, and the structure of, Zytronic plc remain extant and will continue to be regularly reviewed.

Having regard to the above, the Directors believe it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

(f) Basis of consolidation and goodwill

The consolidated financial statements comprise the financial statements of Zytronic plc and its subsidiaries as at 30 September each year. They are presented in Sterling and all values are rounded to the nearest thousand Pounds (£'000) except where otherwise indicated.

All intra-group balances and transactions, including unrealised profits arising from them, are eliminated.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

1. Accounting policies continued

(g) Foreign currencies

The consolidated financial statements are presented in Sterling, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. The Group enters into forward exchange contracts for up to four months ahead to manage its foreign exchange risk. Refer to note 18.

(h) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment charges. Such costs include those directly attributable to making the asset capable of operating as intended and the cost of replacing significant parts of such plant and equipment when that cost is incurred, if the recognition criteria are met. Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold land	–	nil
Freehold property	–	50 years
Long leasehold property	–	30–50 years
Plant and machinery	–	varying rates between 5% and 50% per annum

Any gain or loss arising on disposal of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted, if appropriate. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's fair value, or the cash-generating unit's fair value of which it forms part, less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

(i) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is deemed to be their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Other than capitalised development costs, internally generated intangible assets are not capitalised.

Intangible assets are amortised on a straight-line basis over their useful economic lives and reviewed for impairment at each financial year end. The amortisation expense on intangible assets is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset. The estimated useful lives are as follows:

Patents	–	20 years
Licences	–	period of licensing agreements (between ten and 17 years)
Capitalised development expenditure	–	three to ten years
Software	–	four years

Capitalised development expenditure in relation to electronics and software is usually amortised over a period of up to five years as the shelf life of such technology is shorter. Hardware development is usually amortised over a period of up to ten years.

Intangible assets with indefinite useful lives, such as goodwill, are tested for impairment annually and are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Patent applications

The costs associated with the drafting and filing of patent applications are capitalised as incurred.

Those costs are not amortised until the patent has been granted, after which they will be amortised over its useful economic life of 20 years. If the application fails, the capitalised costs will then be impaired and written off.

1. Accounting policies continued

(j) Research and development costs

Research expenditure is written off as incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development.

During the period of development, the asset is tested annually for impairment. Following the initial recognition of the development expenditure, the cost model (as defined in IFRS) is applied, requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of three to ten years.

(k) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	–	purchase cost on a first-in, first-out basis
Finished goods and work in progress	–	cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(l) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group's financial assets include trade receivables and cash and cash equivalents.

(m) Trade and other receivables

Trade receivables are recognised and carried at their original amount less expected credit losses.

(n) Cash and cash equivalents

Cash and short term deposits in the statement of financial position comprise cash at bank and in hand and short term deposits with an initial maturity of three months or less or for a longer period but with the ability to break the deposit with a similar notice period. Bank overdrafts are shown within financial assets on the statement of financial position as the Group has a set-off arrangement in place. For the purpose of the cashflow statement, cash and cash equivalents comprise these balances, net of outstanding bank overdrafts.

Financial liabilities

The Group's financial liabilities include trade and other payables and derivative financial instruments. The derivative financial instruments are measured at fair value through the statement of comprehensive income. The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Fair value measurement of financial instruments

The Group remeasures its derivatives at fair value at each statement of financial position date and for disclosure purposes estimates the fair value of its remaining financial instruments. Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

(o) Derecognition of financial assets and liabilities

A financial asset or financial liability is derecognised when the contract that gives rise to it is discharged, sold or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

1. Accounting policies continued

(p) Pension scheme

The Group operates a group personal pension scheme, which is a defined contribution scheme, for its employees. Contributions are recognised in the statement of comprehensive income as they become payable in accordance with the rules of the scheme.

(q) Revenue recognition

Zytronic recognises revenue when it transfers goods or services to a customer based on the amount of consideration to which it expects to be entitled from a customer in exchange for fulfilling its performance obligations.

In determining the appropriate method of recognising revenue, management is required to make judgements as to whether performance obligations are satisfied over a period of time or at a point in time. Zytronic has no performance obligations that are satisfied over a period of time and therefore recognises revenue at a point in time.

Sales of finished goods product

Sales of finished goods product to customers are recognised when control of the product has transferred to the third party. This is usually when title passes to the customer, either on shipment or on receipt of goods depending on the delivery terms of the customer order. The performance obligation is satisfied when control has passed to the customer. The transaction price is specified in confirmation of the customer order.

(r) Government grants and subsidies

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with, normally when a grant claim has been approved by the government authority and the grant monies have been received. Where the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systemic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is credited to deferred income and released to the statement of comprehensive income to match the depreciation of the related asset.

(s) Tax

Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is recognised in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill, or of an asset or liability, in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the related asset or liability is settled, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

2. Group revenue and segmental analysis

Revenue represents the invoiced amount of goods sold, stated net of value-added tax, rebates and discounts.

For management purposes, the Chief Operating Decision Maker (the Board) considers that it has a single business unit comprising the development and manufacture of customised optical filters to enhance electronic display performance. All revenue, profits or losses before tax and net assets are attributable to this single reportable business segment.

The Board monitors the operating results of its entire business for the purposes of making decisions about resource allocation and performance assessment. Business performance is evaluated based on operating profits.

All manufacturing takes place in the UK and accordingly all segment assets are located in the UK. The analysis of segment revenue by geographical area based on the location of customers is given below:

	30 September 2022		30 September 2021	
	Touch £'000	**Non-touch £'000**	Touch £'000	Non-touch £'000
Sale of goods				
– Americas (excluding USA)	**322**	**15**	273	13
– USA	**2,015**	**191**	1,683	183
– EMEA (excluding UK and Hungary)	**3,153**	**58**	3,658	220
– Hungary	**251**	**187**	757	165
– UK	**339**	**314**	233	257
– APAC (excluding South Korea)	**283**	**254**	1,230	299
– South Korea	**4,586**	**372**	2,544	168
	10,949	**1,391**	10,378	1,305
Total revenue	**12,340**		11,683	

Individual revenues from two major customers exceeded 10% of total revenue for the year. The total amount of revenue was £4.1m (2021: £2.3m).

The individual revenues from each of these two customers were: £2.4m (2021: £1.3m) and £1.7m (2021: £1.0m). Included on page 2 is the disaggregation of revenue by market type.

3. Group operating profit

This is stated after charging/(crediting):

	30 September 2022 £'000	30 September 2021 £'000
R&D costs	**387**	393
Amortisation of development expenditure	**196**	343
	583	736
Auditor's remuneration – in respect of audit services*	**57**	57
Depreciation of owned assets	**543**	629
Amortisation and write-off of licences	**32**	36
Cost of inventories recognised as an expense including:	**4,019**	3,894
– the net movement in the stock provision	**(44)**	96
Amortisation of capital grants	**(26)**	(1)
Net foreign currency contract differences	**75**	16

* £16,000 of this relates to the Company (2021: £16,000).

4. Staff costs and Directors' emoluments

	30 September 2022 £'000	30 September 2021 £'000
Wages and salaries	**3,982**	3,626
Social security costs	**351**	345
Other pension costs	**162**	134
	4,495	4,105

There are no charges for share-based payments included in wages and salaries.

The total of Directors' emoluments is £358,000 (2021: £341,000). The aggregate value of contributions paid to money purchase pension schemes includes £22,000 (2021: £21,000) in respect of two Directors (2021: two).

Amounts paid to the highest paid Director are £163,000 (2021: £153,000) plus a contribution paid to the money purchase pension scheme of £14,000 (2021: £13,000).

The average number of employees during the year was made up as follows:

	30 September 2022 Number	30 September 2021 Number
Production	**91**	79
Administration and sales	**30**	32
	121	111

The detailed disclosures for Director remuneration, including the AIM requirements, are given in the Remuneration report.

5. Finance revenue receivable

Finance revenue

Interest receivable	30 September 2022 £'000	30 September 2021 £'000
Bank interest receivable	**10**	—

6. Tax

	30 September 2022 £'000	30 September 2021 £'000
Current tax		
UK corporation tax	**40**	122
Tax due on foreign subsidiary	**—**	1
Corporation tax (over)/under provided in prior years	**(79)**	70
Total current tax (credit)/charge	**(39)**	193
Deferred tax		
Origination and reversal of temporary differences	**(24)**	(106)
Movement related to change in tax rates	**43**	26
Movement related to prior year adjustments	**114**	(66)
Total deferred tax charge/(credit)*	**133**	(146)
Tax charge in the statement of comprehensive income	**94**	47

* Note 17.

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6. Tax continued

Reconciliation of the total tax charge

The effective tax rate of the tax charge in the statement of comprehensive income for the year is 13% (2021: 10%) compared with the average rate of corporation tax charge in the UK of 19% (2021: 19%). The differences are reconciled below:

	30 September 2022 £'000	30 September 2021 £'000
Accounting profit before tax	**705**	453
Accounting profit multiplied by the average UK rate of corporation tax of 19% (2021: 19%)	**134**	86
Effects of:		
Expenses not deductible for tax purposes	**(4)**	19
Depreciation in respect of non-qualifying items	**18**	19
Enhanced tax reliefs – R&D and patent box	**(99)**	(100)
Enhanced tax reliefs – super deduction	**(27)**	—
Effect of deferred tax rate reduction and difference in tax rates	**37**	18
Tax under-provided in prior years	**35**	4
Tax due on foreign subsidiary	**—**	1
Total tax expense reported in the statement of comprehensive income	**94**	47

Factors that may affect future tax charges

The main rate of corporation tax has remained at 19% throughout the period ended 30 September 2022. An increase in the main rate of corporation tax to 25% was enacted prior to the year end. This is applicable from 1 April 2023, and therefore the Group has considered the timing of the unwind of its deferred tax and has calculated its deferred tax balances at the rates at which they are expected to unwind. This has resulted in a rate of 25% being applied to deferred tax balances at the year end. As a result of the impending increase in the main rate of corporation tax, the Group expects its effective tax rate to increase in the medium term.

The Patent Box regime allows companies to apply a rate of corporation tax of 10% to profits earned from patented inventions and similar intellectual property. Zytronic generates such profits from the sale of products incorporating patented components. The Group has determined that all relevant criteria has been satisfied for bringing income within the regime. While the loss-making position of the Group in 2020 meant that there was no benefit from the regime in 2020 and 2021, the Group will continue to make Patent Box claims and expects to obtain tax deductions from such claims from 2022 onwards.

7. Dividends

The Directors propose the payment of a final dividend of 2.2p per ordinary share for this year's results. This will bring the total dividend for the year to 2.2p (2021: 1.5p).

	30 September 2022 £'000	30 September 2021 £'000
Ordinary dividends on equity shares		
Final dividend of 1.5p per ordinary share paid on 18 March 2022	**170**	—
	170	—

8. 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 year. All activities are continuing operations and therefore there is no difference between EPS arising from total operations and EPS arising from continuing operations.

	Profit 30 September 2022 £'000	**Weighted average number of shares 30 September 2022 Thousands**	**EPS 30 September 2022 Pence**	Profit 30 September 2021 £'000	Weighted average number of shares 30 September 2021 Thousands	EPS 30 September 2021 Pence
Profit on ordinary activities after tax	**611**	**10,836**	**5.6**	406	13,346	3.0
Basic EPS	**611**	**10,836**	**5.6**	406	13,346	3.0

There are no dilutive or potentially dilutive instruments.

9. Intangible assets

	Software £'000	Goodwill £'000	Patents and licences £'000	Development expenditure £'000	Total £'000
Cost					
At 1 October 2020	598	235	2,045	3,926	6,804
Additions	—	—	49	43	92
Disposals	—	—	(46)	—	(46)
At 1 October 2021	598	235	2,048	3,969	6,850
Additions	136	—	48	23	207
At 30 September 2022	**734**	**235**	**2,096**	**3,992**	**7,057**
Amortisation					
At 1 October 2020	598	—	1,837	3,326	5,761
Provided during the year	—	—	36	343	379
Disposals during the year	—	—	(23)	—	(23)
At 1 October 2021	598	—	1,850	3,669	6,117
Provided during the year	11	—	26	192	229
At 30 September 2022	**609**	**—**	**1,876**	**3,861**	**6,346**
Net book value at 30 September 2022	**125**	**235**	**220**	**131**	**711**
Net book value at 1 October 2021	—	235	198	300	733
Net book value at 1 October 2020	—	235	208	600	1,043

Included within cost is £1.6m (2021: £0.5m) relating to capitalised development costs which have been fully amortised but continue to be utilised in the business.

Impairment of goodwill

The goodwill of £235,000 relates to the operations of Intasolve Limited, which were merged into the business of Zytronic Displays Limited on 1 September 2002.

Zytronic Displays Limited operates in one continuing area of activity, which is the lowest level at which goodwill is monitored for internal purposes. That activity has demonstrated continuing strength in sales revenues, gross profit margins, profitability before tax and cash generation over recent years.

The recoverable amount of goodwill has been determined based on a value-in-use calculation for the cash-generating unit, using cashflow projections based on financial budgets and forecasts approved by senior management covering a one-year period. Growth has been extrapolated forward from the end of the forecasts using a growth rate of 2%, which reflects the Directors' view of the long term growth rate in the business.

The cashflows for the cash-generating unit have been discounted using a pre-tax discount rate of 11%, derived from the Group's weighted average cost of capital.

The calculation of value in use is most sensitive to the forecast operating cashflows, the discount rate and the growth rate of 2% used to extrapolate cashflows beyond the budget period. The operating cashflows are based on assumptions of revenue, cost of sales and general overheads. These assumptions are influenced by several factors both internally and externally.

The Directors consider the assumptions used around revenue and costs to be consistent with the historical performance and to be realistically achievable in light of economic and industry measures and forecasts. It is believed that any reasonably possible movement in assumptions will not lead to an impairment and we have therefore not presented any sensitivity analysis.

10. Property, plant and equipment

The amounts carried in the statement of financial position comprise:

	Land £'000	Freehold property £'000	Long leasehold property £'000	Plant and machinery £'000	Total £'000
Cost					
At 1 October 2020	207	3,070	2,463	8,959	14,699
Additions	—	—	—	179	179
Disposals	—	—	—	(52)	(52)
At 1 October 2021	207	3,070	2,463	9,086	14,826
Additions	—	—	—	281	281
Disposals	—	—	—	(41)	(41)
At 30 September 2022	**207**	**3,070**	**2,463**	**9,326**	**15,066**
Depreciation					
At 1 October 2020	—	768	846	7,265	8,879
Provided during the year	—	61	70	498	629
Disposals	—	—	—	(52)	(52)
At 1 October 2021	—	829	916	7,711	9,456
Provided during the year	—	61	70	411	542
Disposals	—	—	—	(39)	(39)
At 30 September 2022	**—**	**890**	**986**	**8,083**	**9,959**
Net book value at 30 September 2022	**207**	**2,180**	**1,477**	**1,243**	**5,107**
Net book value at 1 October 2021	207	2,241	1,547	1,375	5,370
Net book value at 1 October 2020	207	2,302	1,617	1,694	5,820

11. Inventories

	30 September 2022 £'000	30 September 2021 £'000
Raw materials and consumables	**1,547**	929
Work in progress	**344**	326
Finished goods	**293**	180
	2,184	1,435

The difference between purchase price or production cost of stocks and their replacement cost is not material.

12. Trade and other receivables

Current assets

	30 September 2022 £'000	30 September 2021 £'000
Trade receivables	**2,523**	1,981
VAT recoverable	**85**	69
Corporation tax	**142**	—
Prepayments	**207**	150
	2,957	2,200

Trade receivables are denominated in the following currencies:

	30 September 2022 £'000	30 September 2021 £'000
Sterling	**590**	993
US Dollar	**1,728**	501
Euro	**205**	487
	2,523	1,981

Out of the carrying amount of trade receivables of £2.5m (2021: £2.0m), £0.9m (2021: £0.9m) is the amount of debts owed by two major customers (2021: three major customers). Regular reviews are undertaken on these major customers so as to ascertain that there are no recoverability issues with them.

Trade receivables are non-interest bearing and are generally on 30 to 60-day terms. Some customers, with whom there is a long-standing relationship, are on 90-day terms. They are shown net of a provision for impairment.

As at 30 September 2022, trade receivables at a nominal value of £Nil (2021: £Nil) were impaired due to poor payment history. Movements in the provision for impairment of trade receivables were as follows:

	£'000
At 1 October 2020	4
Utilised during the year	(4)
At 1 October 2021	—
Utilised during the year	—
At 30 September 2022	**—**

Category	Definition of category	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cashflows.	Twelve-month expected losses. Where the expected lifetime of an asset is less than twelve months, expected losses are measured at its expected lifetime.
Underperforming	A significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due (see above in more detail).	Lifetime expected losses.
Write-off	Interest and/or principal repayments are 120 days past due and/or there is no reasonable expectation of recovery based on known information from the customer.	Asset is written off.

12. Trade and other receivables continued

Current assets continued

30 September 2022	Weighted average loss rate	Gross carrying amount £'000	Impairment loss allowance £'000	Credit impaired
Performing	**0.00%**	**1,803**	**—**	**No**
Underperforming	**0.00%**	**720**	**—**	**No**
Write-off	**0.00%**	**—**	**—**	**No**
		2,523	**—**	

30 September 2021	Weighted average loss rate	Gross carrying amount £'000	Impairment loss allowance £'000	Credit impaired
Performing	0.00%	1,731	—	No
Underperforming	0.00%	250	—	No
Write-off	0.00%	—	—	No
		1,981	—	

At 30 September, the ageing analysis of trade receivables was as follows:

		Past due		
	Not due £'000	<3 months £'000	>3 months £'000	Total £'000
2022	**1,804**	**719**	**—**	**2,523**
2021	1,731	248	2	1,981

Credit limits are set for each customer, using Dun & Bradstreet credit reports as appropriate, or pro-forma invoices are raised, or cash upfront is received for a new customer where a credit limit is not easily established. Slow payers are chased vigorously, including making use of solicitors in the collection process. The credit quality of trade receivables that are neither past due nor impaired is assessed by reference to external credit ratings where available; otherwise, historical information relating to counterparty default rates is used.

13. Cash and short term deposits

	30 September 2022 £'000	30 September 2021 £'000
Cash at bank and in hand	**6,132**	8,886
Short term deposits	**271**	271
	6,403	9,157

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for variable lengths, being overnight or six months (sometimes with break conditions), depending on the immediate cash requirements of the Group, and earn interest at variable rates.

At 30 September 2022, the Group had available a net £1.0m (total cash less overdrawn accounts) overdraft facility from Barclays Bank plc which will fall for review in October 2023.

The fair value of cash and cash equivalents is £6.4m (2021: £9.2m).

14. Trade and other payables

	30 September 2022 £'000	30 September 2021 £'000
Trade payables*	**966**	970
Other taxes and social security costs	**89**	110
	1,055	1,080
Accruals	**560**	551
	1,615	1,631

* Trade payables are non-interest bearing and are normally settled on 30-day terms.

15. Financial liabilities

	30 September 2022 £'000	30 September 2021 £'000
Foreign exchange forward contracts	**92**	16
Total	**92**	16
Total current	**92**	16

The foreign exchange forward contract liabilities above are measured at fair value through the statement of comprehensive income as they are not in designated hedge relationships. They are, nevertheless, intended to reduce the level of foreign currency risk for expected sales and purchases.

The fair value of the financial liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Management asserts that the fair values of cash, trade receivables and trade payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

At 30 September 2022, the Group has used a Level 2 valuation technique to determine the fair value of all forward exchange contracts and loans.

Derivative financial instruments

The Group enters into derivative financial instruments with financial institutions. Derivatives valued using valuation techniques with market observable inputs are foreign exchange forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations prepared by the financial institutions. The models incorporate foreign exchange spot and forward rates, and interest rate curves. These derivatives are valued externally by the financial institutions using both intrinsic value and time value, which is standard market practice.

16. Government grants

	30 September 2022 £'000	30 September 2021 £'000
Grant income received	**—**	—
Released to the consolidated statement of comprehensive income	**(26)**	(1)
At 30 September	**—**	26

The £26k balance at 30 September 2021 relates to the Group's claim for its US employees under the PPP loan scheme. This has been fully released to the statement of comprehensive income over the year.

17. Deferred tax liability/(asset)

The deferred tax included in the statement of financial position is as follows:

	30 September 2022 £'000	30 September 2021 £'000
Deferred tax liability		
Accelerated capital allowances	**440**	392
Capitalised R&D	**32**	58
Other	**16**	10
Fair value movement on currency contracts	**—**	4
	488	464
Deferred tax asset		
Pension asset	**(7)**	(5)
Losses	**(13)**	(123)
	(20)	(128)
Disclosed on the statement of financial position	**468**	336

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17. Deferred tax liability/(asset) continued

The deferred tax included in the Group statement of comprehensive income is as follows:

	30 September 2022 £'000	30 September 2021 £'000
Deferred tax in the statement of comprehensive income		
Accelerated capital allowances	**48**	33
R&D tax credits	**(25)**	(56)
Other – losses	**110**	(123)
Deferred income tax credit	**133**	(146)

18. Financial risk management policy and financial instruments

The Group's principal financial instruments comprise cash and forward foreign exchange contract derivatives. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments, such as trade receivables and trade payables, that arise directly from its operations.

The main risks associated with the Group's financial assets and liabilities are set out below:

Credit risk

The risk of financial loss due to a counterparty's failure to honour its obligations arises principally in relation to transactions where the Group provides goods on deferred terms.

Group policies are aimed at minimising such losses and require that deferred terms are granted only to customers who demonstrate an appropriate payment history and/or satisfy creditworthiness procedures. Individual exposures are monitored with customers subject to credit limits to ensure that the Group's exposure to bad debts is not significant. Goods may be sold on a cash-with-order basis to mitigate credit risk.

Management's assessment of the maximum credit risk exposure relating to financial assets is represented by the carrying value as at the statement of financial position date.

Liquidity risk

The Group aims to mitigate liquidity risk by managing cash generated by its operations. Capital expenditure is approved at Group level.

Flexibility is maintained by retaining surplus cash in readily accessible bank accounts.

The Group has an unsecured net overdraft facility of £1.0m arranged with its principal banker, Barclays Bank plc. This facility extends until October 2023 and is to provide funding for working capital.

Maturity profile of financial liabilities

Year ended 30 September 2022

	On demand £'000	**<3 months £'000**	**3–12 months £'000**	**Total £'000**
Trade and other payables	**1,146**	**380**	**—**	**1,526**
Foreign exchange forward contracts – outflows	**—**	**1,518**	**541**	**2,059**
Total	**1,146**	**1,898**	**541**	**3,585**

Year ended 30 September 2021

	On demand £'000	<3 months £'000	3–12 months £'000	Total £'000
Trade and other payables	1,102	419	—	1,521
Foreign exchange forward contracts – outflows	—	1,484	263	1,747
Total	1,102	1,903	263	3,268

Derivatives comprise both cashflows from derivative financial instruments with negative fair values and cashflows from derivatives with positive fair values for which gross settlement has been agreed. The cash outflows from derivatives for which gross settlement has been agreed are matched in part by cash inflows. These cash inflows are not reported in the maturity analysis above. If these cash inflows were recognised, the cashflows presented would be substantially lower.

18. Financial risk management policy and financial instruments continued

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cashflows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency).

The Group has a policy in that forward contracts are used to sell surplus US Dollars and Euros, generated from sales less purchases in those currencies. Contracts are in place at 30 September 2022 for a period of up to four months ahead in line with working capital requirements. Any additional surplus currency at the end of each month is dealt with at spot rates.

The Group entered into forward contracts during the year in both US Dollars and Euros. At 30 September 2022, the US Dollar forward vanilla contracts are fixed over a series of five individual contracts over a period of four months at rates between $1.22600 and $1.10833 and are in place until January 2023. There are no Euro contracts in place at the year end.

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar and Euro exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Change in US Dollar rate	Effect on profit before tax £'000	Change in Euro rate	Effect on profit before tax £'000
2022				
Sterling	**+10%**	**(135)**	**+10%**	**(19)**
	-10%	**165**	**-10%**	**24**
2021				
Sterling	+10%	(96)	+10%	(33)
	-10%	118	-10%	40

Capital management

The Group's policies on capital management are included in the Directors' report on page 35.

19. Equity share capital

(a) Share capital

	2022 Number Thousands	2021 Number Thousands	**2022 £'000**	2021 £'000
Allotted, called up and fully paid				
Ordinary shares of 1p each	**10,162**	11,419	**102**	114

(b) Share premium

	£'000
At 1 October 2021	8,994
At 30 September 2022	**8,994**

(c) Capital redemption reserve

On 1 February 2021, the Company announced a proposed return of up to £10.0m of capital by way of a Tender Offer to all shareholders. This was approved by shareholders on 25 February 2021. As a result, 4,624,889 shares were purchased on 26 February 2021 and subsequently cancelled by the Company at a price of 145p per share, returning £6.7m of the Company's cash to participating shareholders.

On 17 February 2022, the Company announced a further proposed return of capital via a share buyback programme under the authorities obtained at the Company's AGM and Tender Offer General Meeting, both held on 25 February 2021. The Company obtained further authorities to continue to undertake this at its AGM held on 3 March 2022. This action was successfully concluded on 25 May 2022, with a total of 1,257,415 shares having been purchased in aggregate, at a volume weighted average price of 161p per share, returning £2.0m of the Company's cash.

20. Capital commitments

Amounts contracted for at 30 September 2022 but not provided for in the financial statements amounted to £325,000 (2021: £213,000) for the Group.

21. Pension scheme commitments

Contributions for the year ended 30 September 2022 amounted to £162,000 (2021: £134,000) and the outstanding contributions at the statement of financial position date were £36,000 (2021: £29,000). The Group is a member of a group personal pension scheme which is a defined contribution scheme. Contributions are charged to the statement of comprehensive income as they become payable in accordance with the rules of the scheme.

22. Related party transactions

There are no related party transactions required to be disclosed in the financial statements.

The key management personnel are considered to be the Directors of the Group. The following table highlights the remuneration which is recorded in the statement of comprehensive income to the Directors:

	2022 £'000	2021 £'000
Salaries/fees	**398**	379
Bonus	**—**	9
Pension contributions	**22**	24
	420	412

23. Guarantees

Zytronic plc has given a guarantee to Barclays Bank plc in connection with the overdraft facility detailed in note 13.

Consolidated statement of comprehensive income

For the five years ended 30 September 2022

	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Group revenue	**12,340**	11,683	12,680	20,104	22,288
Cost of sales	**(8,577)**	(8,146)	(10,130)	(13,311)	(14,047)
Cost of sales excluding exceptional items	**(8,577)**	(8,146)	(9,015)	(13,311)	(14,047)
Exceptional items	**—**	—	(1,115)	—	—
Gross profit	**3,763**	3,537	2,550	6,793	8,241
Distribution costs	**(258)**	(183)	(196)	(350)	(461)
Administration expenses	**(2,810)**	(2,901)	(3,318)	(3,462)	(3,639)
Administration expenses excluding exceptional items	**(2,810)**	(2,901)	(3,060)	(3,462)	(3,639)
Exceptional items	**—**	—	(258)	—	—
Group trading profit/(loss)	**695**	453	(964)	2,981	4,141
Other income	**—**	—	500	—	—
Group operating profit/(loss)	**695**	453	(464)	2,981	4,141
Finance costs	**—**	—	—	—	(21)
Finance revenue	**10**	—	41	76	68
Profit/(loss) before tax	**705**	453	(423)	3,057	4,188
Tax (expense)/credit	**(94)**	(47)	129	(366)	(541)
Profit/(loss) for the year	**611**	406	(294)	2,691	3,647
Other comprehensive income	**—**	—	—	—	—
Total comprehensive income/(loss)	**611**	406	(294)	2,691	3,647
Earnings/(loss) per share					
Basic	**5.6p**	3.0p	(1.8p)	16.8p	22.7p
Dividends per share	**2.2p**	1.5p	0.0p	22.8p	22.8p

All activities are from continuing operations.

Dividends are shown in the accounts in the year in which they are paid.

This five-year summary has been extracted from the audited accounts for each period.

Consolidated statement of financial position

At 30 September 2018 to 2022

	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Assets					
Non-current assets					
Intangible assets	**711**	733	1,043	1,299	1,585
Property, plant and equipment	**5,107**	5,370	5,820	6,385	6,605
	5,818	6,103	6,863	7,684	8,190
Current assets					
Inventories	**2,184**	1,435	2,332	3,034	3,021
Trade and other receivables	**2,957**	2,200	1,888	4,127	3,738
Cash and short term deposits	**6,403**	9,157	14,038	13,143	14,626
	11,544	12,792	18,258	20,304	21,385
Total assets	**17,362**	18,895	25,121	27,988	29,575
Equity and liabilities					
Current liabilities					
Trade and other payables	**1,055**	1,080	591	962	1,446
Derivative financial liabilities	**92**	16	—	21	7
Provisions	**—**	—	582	—	—
Accruals	**560**	551	376	499	767
Government grants	**—**	26	27	—	—
Tax liabilities	**—**	121	—	192	13
	1,707	1,794	1,576	1,674	2,233
Non-current liabilities					
Government grants	**—**	—	—	—	15
Deferred tax liabilities (net)	**468**	336	480	516	562
	468	336	480	516	577
Total liabilities	**2,175**	2,130	2,056	2,190	2,810
Net assets	**15,187**	16,765	23,065	25,798	26,765
Capital and reserves					
Equity share capital	**102**	114	160	160	160
Share premium	**8,884**	8,994	8,994	8,994	8,994
Capital redemption reserve	**58**	46	—	—	—
Retained earnings	**6,033**	7,611	13,911	16,644	17,611
Total equity	**15,187**	16,765	23,065	25,798	26,765

This five-year summary has been extracted from the audited accounts for each period.

PARENT COMPANY STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2022

	Notes	2022 £'000	2021 £'000
Assets			
Non-current assets			
Property, plant and equipment	4	**3,835**	3,948
Investments	5	**10,106**	10,106
		13,941	14,054
Current assets			
Trade and other receivables:			
– amounts falling due within one year	6	**8**	6
– amounts falling due after one year	6	**1,144**	1,402
Cash and short term deposits		**3,977**	5,744
		5,129	7,152
Total assets		**19,070**	21,206
Equity and liabilities			
Current liabilities			
Trade and other payables	7	**213**	216
Non-current liabilities			
Deferred tax liabilities (net)	8	**216**	224
Total liabilities		**429**	440
Net assets		**18,641**	20,766
Capital and reserves			
Equity share capital	9	**102**	114
Share premium	9	**8,994**	8,994
Capital redemption reserve	9	**58**	46
Retained earnings		**9,487**	11,612
Total equity		**18,641**	20,766

The Company's profit for the year was £64,000 (2021: £2,426,000).

These financial statements have been approved by the Board of Directors and signed on its behalf by:

Mark Cambridge
Acting Executive Chair
12 December 2022

Claire Smith
Group Finance Director

Zytronic Group plc: Registered number 03881244

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Equity share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2020	160	8,994	—	15,892	25,046
Profit for the year	—	—	—	2,426	2,426
Repurchase and cancellation of shares	(46)	—	46	(6,706)	(6,706)
At 1 October 2021	114	8,994	46	11,612	20,766
Profit for the year	—	—	—	64	64
Repurchase and cancellation of shares	(12)	—	12	(2,019)	(2,019)
Dividends	—	—	—	(170)	(170)
At 30 September 2022	**102**	**8,994**	**58**	**9,487**	**18,641**

1. Accounting policies

The preparation of the Company's financial statements requires the Directors to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures at the date of the financial statements and the reported income and expense during the year. Although these judgements and assumptions are based on the Directors' best knowledge of the amounts, events or actions, actual results may differ from those estimates.

(a) Judgements and key sources of estimation

In the process of applying the Company's accounting policies, the Directors have considered that there are no judgements or other key sources of estimation uncertainty at the statement of financial position date which have a significant effect on the amounts recognised in the financial statements.

(b) Basis of preparation

The financial statements of Zytronic plc were approved for issue by the Board of Directors on 12 December 2022. The financial statements are prepared in accordance with FRS 101 Reduced Disclosure Framework.

A statement of comprehensive income is not presented for the Company as permitted by Section 408 of the Companies Act 2006.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand Pounds (£'000) except where otherwise indicated.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 30 September 2022.

In these financial statements, the Company has taken advantage of the following disclosure exemptions available under FRS 101:

- the requirements of IFRS 7 Financial Instruments. The disclosures are available in the Group financial statements of Zytronic plc;
- the requirements in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
  - paragraph 79(a)(iv) of IAS 1 Presentation of Financial Statements;
- the requirements of paragraphs 10(d), 16, 111 and 134–136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirement of paragraph 17 of IAS 24 Related Party Transactions; and
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is wholly owned by such a member.

(c) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment charges. Such costs include those directly attributable to making the asset capable of operating as intended and the cost of replacing significant parts of such plant and equipment when that cost is incurred, if the recognition criteria are met. Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold land	–	nil
Freehold property	–	50 years
Long leasehold property	–	30–50 years

Any gain or loss arising on disposal of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted, if appropriate. The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's fair value, or the cash-generating unit's fair value of which it forms part, less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

(d) Investments

Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

1. Accounting policies continued

(e) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Company's financial assets include cash and cash equivalents.

The Company's financial liabilities include trade and other payables.

Cash and cash equivalents

Cash and short term deposits in the statement of financial position comprise cash at bank and in hand and short term deposits with an initial maturity of three months or less or for a longer period but with the ability to break the deposit with a similar notice period. Bank overdrafts are shown within financial assets on the statement of financial position as the Company has a set-off arrangement in place. For the purpose of the cashflow statement, cash and cash equivalents comprise these balances, net of outstanding bank overdrafts.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised, as well as through the amortisation process.

(f) Tax

Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is recognised in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the related asset or liability is settled, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

2. Auditor's remuneration

Auditor's remuneration for the year ended 30 September 2022 was £16,000 (2021: £16,000).

3. Staff costs and Directors' emoluments

	30 September 2022 £'000	30 September 2021 £'000
Fees	**96**	91
Social security costs	**11**	10
	107	101

The total of Directors' emoluments is £96,000 (2021: £91,000). This is in relation to fees for services provided. There are no charges for pension costs.

Amounts paid to the highest paid Director are £44,000 (2021: £63,000).

3. Staff costs and Directors' emoluments continued

The average number of employees during the year was made up as follows:

	30 September 2022 Number	30 September 2021 Number
Administration	**2**	2
	2	2

4. Property, plant and equipment

	Land £'000	Freehold property £'000	Long leasehold property £'000	Total £'000
Cost				
At 1 October 2021 and 30 September 2022	207	3,070	2,097	5,374
Depreciation				
At 1 October 2021	—	829	597	1,426
Provided during the year	—	61	52	113
At 30 September 2022	**—**	**890**	**649**	**1,539**
Net book value at 30 September 2022	**207**	**2,180**	**1,448**	**3,835**
Net book value at 1 October 2021	207	2,241	1,500	3,948

5. Investments

Investments in subsidiary companies

	2022 £'000	2021 £'000
Shares in subsidiary companies		
At beginning of year	**10,106**	10,106
At end of year	**10,106**	10,106

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are as follows:

Name of company	Incorporated in	Holding	Proportion of voting rights and shares held	Nature of business
Zytronic Displays Limited	UK	Ordinary shares	100%	Manufacture of transparent composites, including touch sensors
Zytronic Inc.	USA	Ordinary shares	100%	Technical sales support
Intasolve Limited	UK	Ordinary shares	100%	Dormant
Zytronic Glass Products Limited	UK	Ordinary shares	100%	Dormant

Zytronic Inc. is a wholly owned subsidiary of Zytronic Displays Limited. The registered office address for all of the subsidiaries is Whiteley Road, Blaydon-on-Tyne, Tyne and Wear NE21 5NJ.

6. Trade and other receivables

	2022 £'000	2021 £'000
Prepayments and accrued income	**8**	6
	8	6

Amounts falling due after more than one year are:

	2022 £'000	2021 £'000
Amounts owed by Group undertakings	**1,144**	1,402

7. Trade and other payables

	2022 £'000	2021 £'000
Trade creditors	—	1
Other creditors and accruals	49	49
Other amounts owed to subsidiary undertakings	81	81
Corporation tax	83	85
	213	216

8. Deferred tax liability

The deferred tax included in the statement of financial position is as follows:

	2022 £'000	2021 £'000
Accelerated capital allowances	216	224
At 1 October	224	176
Credit in the statement of comprehensive income	8	48
At 30 September	216	224

9. Equity share capital

(a) Share capital

	2022 Number Thousands	2021 Number Thousands	2022 £'000	2021 £'000
Allotted, called up and fully paid				
Ordinary shares of 1p each	10,162	11,419	102	114

(b) Share premium

	£'000
At 1 October 2021	8,994
At 30 September 2022	**8,994**

(c) Capital redemption reserve

On 1 February 2021, the Company announced a proposed return of up to £10.0m of capital by way of a Tender Offer to all shareholders. This was approved by shareholders on 25 February 2021. As a result, 4,624,889 shares were purchased on 26 February 2021 and subsequently cancelled by the Company at a price of 145p per share, returning £6.7m of the Company's cash to participating shareholders.

On 17 February 2022, the Company announced a further proposed return of capital via a share buyback programme under the authorities obtained at the Company's AGM and Tender Offer General Meeting, both held on 25 February 2021. The Company obtained further authorities to continue to undertake this at its AGM held on 3 March 2022. This action was successfully concluded on 25 May 2022, with a total of 1,257,415 shares having been purchased in aggregate, at a volume weighted average price of 161p per share, returning £2.0m of the Company's cash.

10. Guarantees

Zytronic plc has given guarantees regarding funding advanced to Zytronic Displays Limited by Barclays Bank plc in connection with an overdraft facility detailed in note (a) below.

(a) Borrowing facilities

The Group has an unsecured overdraft facility of £1.0m arranged with its principal banker, Barclays Bank plc. This facility extends until October 2023. This facility is to provide funding for working capital.

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of Zytronic plc (the "Company") will be held at the Company's registered office at Whiteley Road, Blaydon-on-Tyne, Tyne and Wear NE21 5NJ, at 1.00 pm on Thursday 9 February 2023 to consider and, if thought fit, pass the following resolutions:

Ordinary business

To consider and, if thought fit, pass the following resolutions as ordinary resolutions of the Company:

1. To receive the financial statements for the year ended 30 September 2022 and the reports of the Directors and auditor thereon.
2 To pay a final dividend of 2.2p per ordinary share of 1.0p for the year ended 30 September 2022 on Friday 24 February 2023 to members on the Register at close of business Friday 10 February 2023.
3. To re-elect Claire Smith as a Director.
4. To elect Mark Butcher as a Director.
5. To re-appoint Crowe U.K. LLP as auditor and to authorise the Directors to fix its remuneration.

Special business

To consider and, if thought fit, pass the following resolution number 1 as an ordinary resolution of the Company and the following resolutions numbered 2, 3 and 4 as special resolutions of the Company:

1. That, pursuant to Section 551 of the Companies Act 2006 (the "Act"), the Directors be generally and unconditionally authorised to exercise all powers of the Company to allot Relevant Securities up to an aggregate nominal amount of £33,533.73, provided that (unless previously revoked, varied or renewed) this authority shall expire at the conclusion of the Company's Annual General Meeting held in 2024 or at the close of business on the date which is 15 months after the date of this Annual General Meeting (whichever is the earlier), but in each case prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require Relevant Securities to be allotted after the authority expires and the Directors may allot Relevant Securities under any such offer or agreement as if the authority had not expired.

   In this resolution, "Relevant Securities" means shares in the Company or rights to subscribe for or to convert any security into shares in the Company; a reference to the allotment of Relevant Securities includes the grant of such a right; and a reference to the nominal amount of a Relevant Security which is a right to subscribe for or to convert any security into shares in the Company is to the nominal amount of the shares which may be allotted pursuant to that right.

2. That if special business resolution 1 above is passed, the Directors be authorised to allot equity securities (as defined in the Act) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if Section 561 of the Act did not apply to any such allotment or sale, such authority to be limited to:

   (a) the allotment of equity securities in connection with an offer of equity securities (whether by way of a rights issue, open offer or otherwise):

   (i) to holders of ordinary shares in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them; and

   (ii) to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

   but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and

   (b) the allotment of equity securities or sale of treasury shares (otherwise than under paragraph 2(a) above) up to a nominal amount of £5,080.87,

   such authority to expire at the conclusion of the Company's Annual General Meeting held in 2024 (or, if earlier, at the close of business on the date which is 15 months after the date of this Annual General Meeting) but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

Special business continued

3. That if special business resolution 1 is passed, the Directors be authorised in addition to any authority granted under special business resolution 2 to allot equity securities (as defined in the Act) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if Section 561 of the Act did not apply to any such allotment or sale, such authority to be:

   (a) limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £5,080.87; and

   (b) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors of the Company determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice,

   such authority to expire at the conclusion of the Company's Annual General Meeting held in 2024 or at the close of business on the date which is 15 months after the date of this Annual General Meeting (whichever is the earlier) but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

4. That the Company be and is hereby generally and unconditionally authorised pursuant to Section 701 of the Act to make market purchases (within the meaning of Section 693(4) of the Act) of ordinary shares provided that:

   (a) the maximum number of ordinary shares hereby authorised to be purchased shall be 1,016,174;

   (b) the minimum price which may be paid for an ordinary share shall be 1p;

   (c) the maximum price which may be paid for an ordinary share shall be not more than 5% above the average of the middle market quotations for ordinary shares as derived from the London Stock Exchange daily official list for securities admitted to AIM of the London Stock Exchange for the five business days immediately preceding the date of the purchase of the ordinary share; and

   (d) unless previously renewed, revoked or varied, the authority hereby conferred shall expire at the conclusion of the Company's Annual General Meeting held in 2024 or at the close of business on the date which is 15 months after the date of this Annual General Meeting (whichever is the earlier) save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares which will or may be executed wholly or partly after the expiry of such authority and may purchase ordinary shares pursuant to such contract as if such authority has not expired, and that all ordinary shares so purchased in pursuance of this authority shall be held as treasury shares (as defined by Section 724 of the Act) for future resale for cash, transfer for the purposes of an employee share scheme or cancellation.

By order of the Board

Claire Smith
Company Secretary
Zytronic plc
Whiteley Road
Blaydon-on-Tyne
Tyne and Wear
NE21 5NJ

12 December 2022

Notes

1. Every member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend, speak and vote (whether on a show of hands or on a poll) at the meeting on their behalf. A proxy need not be a member of the Company. A prepaid Form of Proxy accompanies this document.
2. Completed Forms of Proxy must be returned to the Company's registrars at the address shown on the Form of Proxy not later than 9.30 am on Tuesday 7 February 2023 or two working days prior to any adjourned meeting or, in the case of a poll taken more than 48 hours after it is demanded, one working day before the time appointed for the taking of the poll. The sending of a completed Form of Proxy to the Company's registrars will not preclude members from attending and voting at the meeting, or any adjournment thereof, in person, should they so wish.
3. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), specifies that only those holders of ordinary shares of 1p each of the Company registered in the Register of Members of the Company:

   (a) as at close of business or 6.00 pm on 7 February 2023; or

   (b) if this meeting is adjourned, at close of business two working days prior to the adjourned meeting,

   shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares of 1p each in the capital of the Company registered in their name at that time. Changes to entries on the Register of Members after 6.00 pm on Tuesday 7 February 2023 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. Copies of contracts of service between the Directors and the Company or any of its subsidiary undertakings will be available for inspection during normal business hours by members at the registered office of the Company on each business day from the date of this notice until the date of the Annual General Meeting, and at the place of the Annual General Meeting for at least 15 minutes prior to, and during, that meeting.

CORPORATE INFORMATION

Websites
www.zytronicplc.com
www.zytronic.co.uk
www.zytronic-inc.com
www.zytronic.cn
www.zytronic.jp

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