ZYTRONIC

Durable, reliable and adaptable touch technology.

Zytronic plc
Annual Report and Financial Statements 2018

LEADERS IN PROJECTED CAPACITIVE TOUCH TECHNOLOGY

We live in a world that has become interactive and responsive to our touch, where touch technology is second nature and enhances every aspect of our lives.

WHERE OUR PRODUCTS ARE TOUCHING LIVES

Design
New York Metropolitan Transportation Authority ("MTA"), USA

We help our customers to create innovative touchscreen interfaces that are unique to their brand and manufactured to the highest standards, such as the extensive network of interactive wayfinding digital information kiosks in subway stations throughout Manhattan.

Service
ebebek, Turkey

With decades of glass processing, laminating, and electronics experience, we can support our customers and their projects from design to delivery. This allows our customers to create innovative, interactive concepts like ebebek's "clicks-to-bricks" retail project in 132 stores across Turkey.

Performance
SK Telecom, South Korea

Responsive, accurate and reliable, Zytronic MPCT™ can detect 80 or more touches in lightning quick time, as discovered by Korea's largest wireless carrier, SK Telecom, which utilised Zytronic's latest multi-touch controller (the ZXY500) for its "smart city" kiosks.

CONTENTS

Strategic report

Overview	01
At a glance	02
Chairman's statement	04
Chief Executive Officer's review	05
Our business model	08
Our markets	13
Our strategy	14
Our key performance indicators	16
Risk management	18
Sustainability	22
Financial review	24

Corporate governance

Board of Directors	26
Corporate governance	27
Audit committee report	30
Remuneration report	32
Directors' report	34

Financial statements

Group accounts	
Independent auditor's report	36
Consolidated statement of comprehensive income	43
Consolidated statement of changes in equity	44
Consolidated statement of financial position	45
Consolidated cashflow statement	46
Notes to the consolidated financial statements	47
Five-year summaries	64
Parent Company accounts	
Parent Company statement of financial position	66
Parent Company statement of changes in equity	67
Notes to the Parent Company financial statements	68
Notice of Annual General Meeting	73
Corporate information	76

Find out more about us and watch our video at **www.zytronic.co.uk**

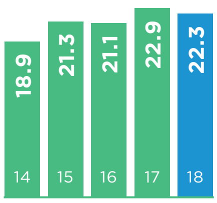
OVERVIEW

- Group revenues of £22.3m (2017: £22.9m), impacted by a £1.3m reduction in revenues generated from the Financial market, offset in part by growth in the Gaming market
- Gross margin reduced to 37% (2017: 41.1%), reflecting the impact from reduced Financial market products on production efficiencies and the combined effects of some new product and process introductions
- Administration costs of £3.6m (2017: £3.6m); with savings in salaries offset by £0.3m of one-off, settled litigation costs
- Reported profit before tax of £4.2m (2017: £5.4m), as a result of reduced revenues, lower gross margin and litigation costs
- Final dividend of 15.2p proposed (2017: 15.2p), bringing total dividends for the year to 22.8p (2017: 19.0p), up 20% year on year
- Basic earnings per share of 22.7p (2017: 29.0p)
- Finalisation of new MPCT™ ASIC chip development and new ZXY500 series controller family

FINANCIAL OVERVIEW

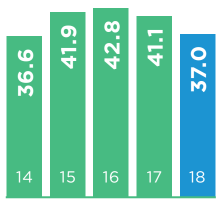
Group revenue (£m)

£22.3m -3%



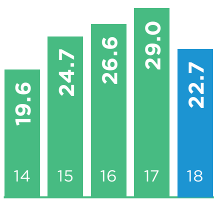
Gross profit margin (%)

37.0% -10%



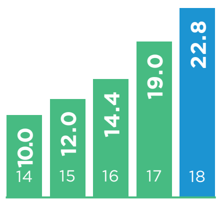
Earnings per share (p)

22.7p -22%



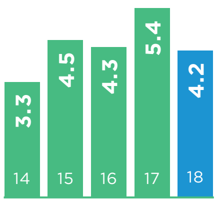
Dividends (p)

22.8p +20%



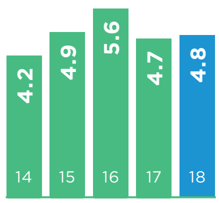
Profit before tax (£m)

£4.2m -23%



Cash generated from operating activities (£m)

£4.8m +3%



WHY ZYTRONIC?

DESIGN

- You choose the shape and size
- Available in a variety of materials
- Any quantity you need

See our business model in action **P10**

SERVICE

- There is no substitute for experience
- Pushing touch to the limit
- Leaders in touch control electronics

See our business model in action **P11**

PERFORMANCE

- Durable and reliable
- Accurate and responsive
- In any location

See our business model in action **P12**

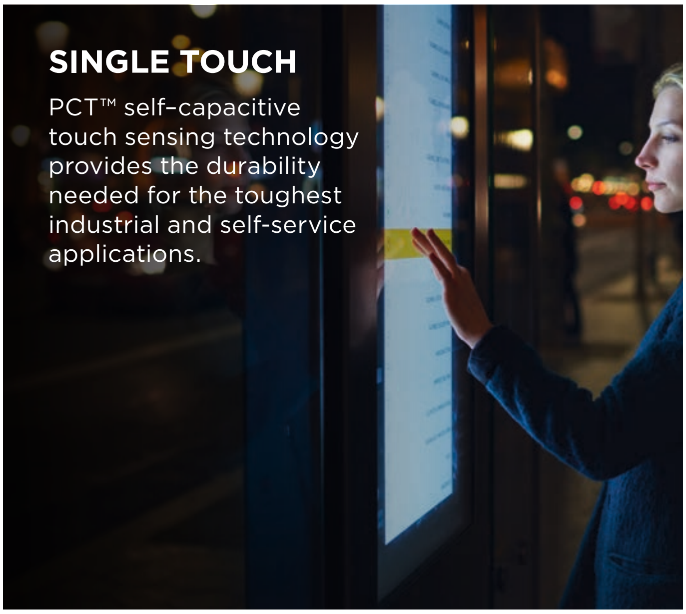
OUR BENEFITS

At Zytronic we go the extra mile to make sure our products and services are extraordinary.

In fact, we are unique in the industry – designing our own touch controllers and writing our own proprietary touch detection firmware. Coupling this with our customisable touch sensors, and adaptable manufacturing processes, means we can create touch electronics, software and hardware that specifically meet the requirements of our customers and help take our customers' visions to reality, and keep them ahead of the competition.

Sustainability **P22–23**

OUR TECHNOLOGY



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.

WHO WE WORK WITH

Coca-Cola NCR DIEBOLD NIXDORF ARISTOCRAT

WHERE OUR TECHNOLOGY IS USED

Our customers produce electromechanical systems designed for self-service or public use in a variety of commercial applications. We categorise these as:

Leisure

Our customers in this sector include manufacturers of slot machines, wagering and lottery terminals and other entertainment systems, such as video juke boxes. Touchscreens are gradually replacing mechanical buttons in these devices due to their increased reliability and flexibility.

Surfaces

Our award-winning multi-touch MPCT™ touch sensors are available in any shape or size up to 85", perfect for multi-user touch tables in retail, leisure and commercial applications.

Signage

As advertising and public information moves from static billboards to large, dynamic digital displays, our touch sensors are increasingly used by advertisers and brands to introduce interactivity to the screens, personalising the customer experience and enabling municipalities to engage with citizens and tourists.

Industrial

From medical diagnostic devices in hospitals to process control panels on oil rigs, our touch sensing products are specified by a wide range of customers seeking to deploy intuitive, reliable user interfaces within their systems.

Retail

Our durable, all-weather touch technology is used in a wide range of self-service vending applications, such as ticket machines, car washes and automated food and beverage dispensers. As traditional retailers struggle to stay relevant in an online age, engaging and reliable touchscreens are an increasingly useful tool.

Financial

We supply vandal resistant touch sensors to the leading producers of ATMs and other types of self-service kiosks and financial technology systems, enabling them to automate transactions and routine services. Our products enable end-users to access services 24/7 and all year round.

See our business model **P8–12**

INCREASE IN ANNUAL DIVIDEND OF 20%

After four years of uninterrupted growth we have this year experienced a flattening of revenues and a change in the mix of our business but, despite lower profits, we have continued to generate more than our profits in cash enabling us to increase dividends for shareholders by 20%.

Our strategy P14–15

Sustainability P22–23

Results

Revenues for the year ended 30 September 2018 were slightly lower at £22.3m (2017: £22.9m) but a lower gross margin of 37.0% (2017: 41.1%) was the main contributor to a fall in reported profit before tax to £4.2m (2017: £5.4m).

This year we continued to experience encouraging growth in sales of our touchscreens to the Gaming sector which somewhat offset the decline in the sales to Financial markets. However, the benefit of growth in this market area was partly offset by lower margins, principally from labour and material inefficiencies, as new and different products and methods associated with Gaming replaced more familiar tried and tested touchscreens for the ATM sector.

Distribution and administration costs remained tightly controlled at £4.1m (2017: £4.0m) even after incurring £0.3m of one-off costs associated with an intellectual property claim which was settled during the year.

Cash generation

Net cashflow from operating activities was £4.8m (2017: £4.7m). £0.7m was invested in capital expenditure during the year and after the payment of dividends of £3.7m (2017: £2.4m) resulted in a net increase in cash of £0.5m to £14.6m (2017: £14.1m).

Dividend

The Directors have recommended a final dividend of 15.2p which, together with the interim dividend of 7.6p paid in July 2018, has resulted in an increase in the total dividend payable for the year ended 30 September 2018 of 20% to 22.8p (2017: 19.0p).

Outlook

We are in a strong financial position and cash generative which provides a strong platform on which to develop our business, and to grow profits and dividends for shareholders. Revenues and trading are currently at similar levels as last year, and the focus will be to improve margins from production efficiencies and to secure new projects from the launch of the new electronic ASIC controllers.

Tudor Davies
Chairman
10 December 2018

> *"We are in a strong financial position and cash generative which provides a strong platform on which to develop our business, and the focus will be to improve margins from production efficiencies and to secure new projects from the launch of the new electronic ASIC controllers."*

OUR CULTURE AND VALUES

We believe in the following three core values to serve as the guidelines for our conduct as an organisation and for the behaviour of our employees.

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.

Quality

Providing customer satisfaction through the continual improvement of our products and processes and the capabilities of our employees, through innovation, development and training. We work with both our customers and suppliers to meet their and our needs in delivering exceptional products tailored exactly to our customers' requirements.

Performance

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

STRONG SALES OF GAMING PRODUCTS

I would like to start this review by thanking all employees for their valued contribution to the performance of the business over the reporting period.

The information detailed below provides insights into the various operational aspects of Zytronic Displays Limited ("ZDL"), our wholly owned operating subsidiary, that have influenced the reported trading performance over the fiscal year, drawing comparisons with the prior periods where necessary.

Sales

The second half trading revenues of £11.7m showed a 10% improvement on the £10.6m reported for the first half. However, as detailed at the interims, first half revenues were affected by the performance of the Financial market (comprising ATM touch and non-touch products), which at £2.8m was £1.1m lower than the prior year (H1 2017: £3.9m). The second half performance was also impacted by the Financial market, but to a lesser degree, as the improvement in the level of sales did not materialise as quickly as hoped. As a result, the total impact was £1.3m of reduced Financial sales for the full year, composed of £0.9m of touch and £0.4m of non-touch. Although growth was seen in other areas such as Gaming, it was the reduced Financial market revenues that significantly contributed to the reported 3% full-year reduction in trading revenues to £22.3m (2017: £22.9m). Total export revenues (as measured by ZDL, being the location of the customers to whom products are invoiced), were £19.5m (2017: £19.9m).

Revenues generated by sales of our touch products were lower than the prior year at £20.1m (2017: £20.6m). As inferred above, the Financial market significantly contributed to this reduction, as Financial touch revenues reduced from £6.3m to £5.4m.

Export touch product revenues remained flat at £18.0m, even though all of our Financial touch products are exported, with the Americas (North, Central and South America) and Asia Pacific ("APAC") regions growing, by £0.2m to £4.0m (2017: £3.8m) and £1.0m to £8.2m (2017: £7.2m) respectively. Europe, Middle East and Africa ("EMEA") experienced the brunt of the Financial market decline, reducing to £5.8m (2017: £7.0m).

Touch sales

Gaming, which was dominated by casino-based upright cabinet designs, as it was in the prior year, has continued to be our top revenue-generating application market, with growth in both units produced at 23,000 (2017: 20,000 units) and revenues generated, contributing £8.2m (2017: £7.7m). This growth reflects the maturation of existing projects and new predominantly Asian invoiced PCT™ and MPCT™ projects which moved into production during the period.

Financial touch sales saw a decline on the back of total unit volumes falling by 6,000 to 44,000 units. We believe the observed decline has been down to several factors which have generally been felt by the larger ATM OEMs in the market. These were: an imposed change in procurement practices in China for the Chinese market; a slower than anticipated change to the outsourcing of ATM assembly to third parties; and the move by Financial institutions to a Windows 10 operating system from the previously deployed Windows 7 and the consequent delays caused in them placing new unit orders. There is also little doubt that consumer digital money management may be influencing future ATM deployment levels.

Vending continued to be our second highest market in terms of units produced at 28,000 units, but this was 7,000 units lower than the prior year, due in the main to two factors: the finalised supply of the Freestyle™ Coca Cola® drinks machine and a reduced supply into a German-based customer in the field of parking management and fare collection. In terms of revenue, it remained our third largest market at £3.0m (2017: £3.5m).

The Industrial market (comprising applications for control panels in difficult operating environments and non-transactional kiosks) saw an 8,000 unit increase in sensors sold to 24,000 units, and an increase in the revenues generated to £1.8m (2017: £1.6m). The Signage market increased to £1.2m (2017: £0.8m), on the back of a 1,000 unit increase in large sensors sold to 2,000 units as the number of Smart City type street furniture deployments increased, particularly for cities in the USA, which offer on the street internet, wayfinding and wifi hotspot capabilities.

The other markets which are predominantly in the small size ranges and are open to much greater competition from alternative suppliers are Home Automation, Healthcare and Telematics, in total decreased to £0.5m (2017: £0.7m). This reflects the units supplied to Home Automation almost halving to 5,000 units, as the Bosch cooktop moves towards end of design life, and those supplied to Health reduced by nearly two thirds to 1,000 units.

As has been well documented in prior years, ZDL's touch revenues are not only linked to the markets, which influence the number of touch sensors produced, but more substantially to the mix of the sensor sizes, as large format units carry a higher price per unit, as well as technology choice between MPCT™ and PCT™ and sensor shape.

Touch sales *continued*

The total number of sensor units supplied was lower than that of 2017 by 5,000 units to 133,000 units (2017: 138,000 units) but, as the table below illustrates, there was growth in the higher priced large format sensors.

Within the 133,000 total, we had a 5,000 unit increase in the number of MPCT™ sensors sold to 17,000, as well as continued opportunities in and the uptake of non-flat touch sensors, with the volume of shaped sensors increasing to 10,000 units from 9,000 units in 2017.

Strategic sales and marketing initiatives

As a business, ZDL focuses on the development and production of touch interactive component solutions for self-service and commercial use, providing its bespoke touch componentry to equipment designers and manufacturers across several market sectors, as detailed above.

As a UK operating business with the overwhelming majority of sales represented by exports, we employ a team of sales and business development managers located at our headquarters and in more recent years have expanded to provide equivalent direct local support in international locations within our major markets. In addition, we have built a global network of sales channel partners. These partners are a combination of commissioned manufacturers' representatives or agents, aiding our direct sales team, and distributors or value-added resellers ("VARs"), which buy and resell our products (indirect sales). The choice of the type of sales channel partner for any specific territory is determined after significant territory and market evaluation.

The current composition of our global channel partners is presented on the ZDL website and can be found at zytronic.co.uk/where-to-buy/. ZDL continually reviews the suitability of its direct and indirect partners depending upon their performance, as well as local market preferences and requirements. This is continually refined and over the course of the year we made several changes.

- We concluded the year with twelve regional agreements covering the Americas as we terminated the agreement with one underperforming agent. Looking forward we are likely to terminate a further three agencies but have already agreed terms with two replacements. Although previously stating our intention to increase the USA-based Zytronic Inc. direct sales team from two persons to three, a conscious decision was made to delay the recruitment. We continue to evaluate this with a view to restarting the search and selection process during 2019.
- At the end of the fiscal period we had twelve agreements covering the APAC region. During the year we appointed a further indirect employee in Japan, through our service partner Business Link Japan, to increase the regional technical sales support. Additionally, we have been working closely with a new VAR for Thailand, which we shortly expect to sign an agreement with.
- In EMEA and the UK we concluded the financial year with 13 active agreements, unchanged from 2017.
- Additionally, we continued to work with two global distribution/VAR partners, Future Electronics and Quixant Group.

Our 2018 marketing strategy in support of sales activities continued to focus on increasing our regional profile in European, North American and Chinese trade publications in key vertical markets, both in traditional press and digital online publications. Much of the activity during the first half of the year was geared to the launch and promotion of our new MPCT™ application specific integrated circuit ("ASIC") chip and the resultant associated products and benefits. Several new international case studies were also issued during the year, highlighting the various applications of our technology. These included Cryptera (Denmark), Ebebek (Turkey), Santander (Chile) and Smartlink (USA), in addition to several whitepapers, "thought leadership" articles and product releases.

Towards the latter part of the year, having reviewed the respective outputs of each, we moved our Asian focus from China and have repositioned it to Japan, appointing a Japan-based search engine optimisation ("SEO") specialist to better manage the microsite and a local PR agency. In addition, we completed a review of our digital and social media requirements and changed our UK service provider to improve our SEO success. The new agency has helped us enhance our main website to further highlight our product attributes and improve site navigation, with many of these changes cascaded down to the regional microsites. During the year we have also initiated trial pay-per-click advertising campaigns on appropriate social media platforms, targeting relevant keywords and job functions. We continue to review the results of these programmes and will adapt and continue or stop as appropriate.

We continue to see the benefits of directly participating in relevant market tradeshows, primarily as regional networking opportunities with customers, suppliers and sales channel partners. Consequently, during 2018 we exhibited at several events: the Global Gaming Exhibition ("G2E" October 2017, Las Vegas), the International Casino Exhibition (February 2018, London), Integrated Systems Europe (February 2018, Amsterdam) and the Digital Signage Exhibition (March 2018, Las Vegas).

Indirectly, our products were also well represented at tradeshows around the world by distributors and customers. These included Embedded World (February 2018, Nuremberg), Infocomm (June 2018, Las Vegas) and Transport Publics (June 2018, Paris). Notably, the encrypted touch solution sold by Cryptera was shown by it at several USA retail and financial shows, such as the National Retail Federation (January 2018, New York) and additionally Money 20/20 (June 2018, Amsterdam).

	2018		2017		Variance	
Sensor size	**Units ('000)**	**% total**	Units ('000)	% total	Units ('000)	% total
Small – (0–14.9")	**35**	**26**	33	24	2	6
Medium – (15.0–29.9")	**79**	**60**	87	63	(8)	(9)
Large – (30.0"+)	**19**	**14**	18	13	1	6
Total	**133**	**100**	138	100	(5)	(4)

> *"We continue to see the benefits of directly participating in relevant market tradeshows, primarily as regional networking opportunities with customers, suppliers and sales channel partners."*

Opportunities analysis

Incoming leads from all sources (website, tradeshows, channel partners, sales management, etc.) are fed into our tailored Microsoft Dynamics customer relationship management ("CRM") software system. Once validated those leads are then categorised as opportunities according to vertical market (application), annual quantity, touch sensor type, project duration, estimated unit price and production start date. Opportunities have an average maturation period of two years from lead to production.

As an opportunity progresses, an estimated probability of success is dynamically assigned. Only those opportunities at the point in time when they are assigned with a high probability, are then classified as a "Project"; otherwise they remain a "Prospect" and only those designated as a Project at the time of our quarterly sales reviews are added into our dynamic forecast model. As this is a dynamic system, probability levels can change, so a Prospect one day can be upgraded to a Project on another, or vice versa.

The CRM information is constantly being updated by the sales team to account for changes to opportunities, which may be because they become dead or lost to a competitor, moved into production or, as mentioned above, reassessed for probability of success. Accordingly, the number of active opportunities and the volume and value of active Projects varies significantly day to day. At 30 September 2018, there were a total of 414 active opportunities in the system, with 41 of those opportunities classified on that day as Projects, with an unsensitised and theoretical lifetime contribution of £8.0m. This compares with 30 September 2017 values of 551, 60 and £8.2m respectively.

The net movement in 19 Projects over the year was represented by six Projects being re-classified back to Prospects as they did not maintain their high probability status; 15 Projects were lost, due to projects either being terminated by the customer, or lost to a competitor; 129 new Projects were added during the year and 127 Projects moved through into production.

Strategic research and development

As is customary, the emphasis of the research and development team evolved throughout 2018 as the year progressed. At the start of the fiscal year, the emphasis was on the completion of the development of our MPCT™ ASIC chip and its introduction into production and to customers. An initial supply of 24,000 production ASICs were received around January 2018. This spawned further complementary work on the release of a new family of controllers incorporating the new ASIC with a designation of ZXY500 and the availability of an MPCT™ chipset, to allow equipment designers the freedom of building Zytronic touch control features directly on to mother or daughterboards.

In conjunction with the release of the ZXY500 series, new flexible printed circuit ("FPC") tail designs and sensor configurations were introduced, that provided industry leading narrow border considerations, which had been configured using years of customer feedback and wider market input. To bring these components together, a new fibre laser bonding system was introduced, which had been designed and developed by the R&D team over the prior 18-month period.

As these elements were handed off to production, the R&D team returned to other future development programmes and those related to alternative material considerations based on the functional performance headroom created by the new ASIC development. The collaboration work undertaken on the Hi-Response European funded H2020 project for ink-jet printed electronics continues to progress, but extremely slowly and it now looks likely as that project moves to conclusion that an immediately usable output will not be the result. However, a resurgence in indium tin oxide ("ITO"), due in the main to the instability issues of emerging tech such as metal mesh and silver nano-wire, has had ZDL look much closer to the marrying of ITO with its new ASIC and the results presently look promising. However, competitiveness and pricing need further consideration.

Over the course of the year, ZDL has had three further patents granted, associated with USA and China regional divisions of selected GB MPCT™ 2012 filed patents. The team continued to progress innovative work on the incorporation of mechanical push buttons within the active and visible area of touchscreens. In doing so, it worked on using our unique micro-wire and pattern design capabilities to develop an interlacing method to provide invisible power and data lines to and from the button. A further patent application has been filed for this, with the solution successfully demonstrated on a four button player 55" multi-touch table game at the G2E tradeshow.

Operations

Over the course of 2018, the productive headcount has varied significantly with a weekly average of 118 persons compared with 115 persons over 2017. The higher average in 2018, being more a result of production inefficiencies from the significant reduction in the manufacture of Financial products, and unprecedented yield issues associated with related new product and process introductions whilst maintaining on-time customer deliveries in Q4, resulting in an average of 128-person headcount in Q4.

As a result of the short order book and batch project nature of the business, productionising of new processes or product configurations on active orders is our common practice and when issues arise, they are normally readily managed. However, the yield issues observed in Q4 were extreme and unfortunately related to the productionising of new Gaming projects. These comprised large format and new shaped touch sensors, which incorporated the new FPC tail designs and narrow inactive border features of the new ZXY500 MPCT™ solutions, and required the exclusive use of the new fibre laser jointing process. Adopting these new technologies and manufacturing processes in combination proved problematic.

Significant work continues to be undertaken to understand, and where possible, eradicate the issues observed and bring the yields of the new product offerings and newly introduced processes back in line with our expectations.

Mark Cambridge
Chief Executive Officer
10 December 2018

OUR COMPETITIVE ADVANTAGES – ADDING VALUE TO OUR CAPABILITIES

OUR KEY RESOURCES AND RELATIONSHIPS

Technology
We coined the term "projected capacitive" more than 18 years ago and we are global leaders in its development with our proprietary PCT™ and patented MPCT™ technology.

R&D
We are pioneers in the field of projected capacitive touch technology – now the most widely used touchscreen technology in the world. We constantly strive to be ahead of trends and to further the advancement of new products and processes, including our patented, customisable, multi-touch technology.

We have applied for new patents over the year to further strengthen our presence in the market, and have also had three further patents granted under the 2012 MPCT™ applications.

Experienced team
Over the last eight years, we have built up a diverse team of mechanical, electronic, software and firmware engineering experts, to continually develop the processes, materials and functionality across the full gamut of all products that Zytronic designs and manufactures.

This ensures that the developed and, where appropriate, patented IP in our touch technologies and products remains at the forefront of the industry and allows us to take an important position within the touch ecosystem.

In-house facilities
Our commitment to developing innovative touch technology is backed up by stringent (ISO-approved) quality and environmental systems and our multi-lingual/multi-national sales, customer service and technical support teams are always on hand to assist customers throughout a project.

Chief Executive Officer's review **P5–7**

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, Retail, Leisure, Signage, Industrial, 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 80,000ft^2, which are all located on a single site in the UK.

At a glance **P2–3**

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.

Using a consultative sales approach, we ensure our customers are educated, informed and engaged with all aspects of the design and sales process, which allows us to create a truly adaptable service, and touch sensor solutions that meet the needs of their interactive application.

Partners
We have an ever-expanding network of specialists, international representatives and resellers, all of which are dedicated to meeting the needs of our customers and offering local and practical support when necessary.

Employees
With well over half a century of glass processing and laminating experience, and over 16 years of experience developing our own touch controllers, our employees are experts in their fields.

From initial idea, to prototype, manufacture and installation, our employees offer professional advice and guidance to make sure customers' needs are met throughout the lifespans of their projects.

Shareholders
We continue to deliver value for our shareholders and have returned double-digit annual growth in our dividends over the past five years.

Our strategy **P14–15**

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 into the development of new technology, products and processes.

R&D spend "expensed" (2018)

£0.4m

Patents granted

8

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 39 sales channel partnerships to sell our products around the world, two of which are global distribution agreements.

DESIGN

We develop and manufacture highly durable and adaptable touchscreens in a near limitless range of shapes and sizes.

Any shape and size

Precisely tailored to meet our customers' specific applications, we help create a unique touchscreen interface design, with a near limitless range of shapes and sizes to fit any display from 5" to over 85", and incorporating features such as curved glass, cut and drilled holes or slots, and in almost any colour imaginable.

Variety of materials

Our projected capacitive touch sensors can be supplied in a wide variety of glass types. Our patented touch technology is also available in rollable films for self-application. Furthermore, with their incredibly sensitive touch detection, our products can also be specified in a wide range of glass thicknesses and strengthening treatments, from 1mm to well over 20mm, to meet requirements for high impact resistance.

Flexible quantities

We understand that our customers' projects may require one touchscreen or thousands, and that demand can fall and rise. For that reason, we do not have a "minimum order quantity" as our unique manufacturing process is flexible enough to support new self-service or commercial touchscreen projects from prototyping to mass production, and through its life cycle.

Case study

"PICK AND FLIP" FUNCTIONALITY

Zytronic and Istanbul-based integrator Nerotouch have digitised Kia's dealership

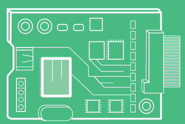
Location:	Industry:	Application:
Turkey	Automotive sales	Retail

Nerotouch provided Kia with the multi-touch software installed on diagonal touch tables, including the pick and flip functionality that transfers content to the 2×2 video wall. Nerotouch was able to exceed Kia's expectations by creating a lightweight table that can be moved around the car showroom, allowing management to adapt the layout to changing needs, for example by placing the table next to a new model.

Read more at **zytronic.co.uk/case-studies/detail/kia/**

SERVICE

Our commitment to developing innovative touch technology is backed up by stringent quality systems and customer service.



Leaders in touch control electronics

We are unique in the industry – designing our own touch controllers, writing our own proprietary touch detection firmware and developing our own ASICs. This means we have created electronics and software specifically to meet the requirements of our customers' self-service applications and our customers can rest safe in the knowledge that we "own" the full solution.

An experienced team

With well over half a century of glass processing and laminating experience, over 15 years of developing our own touch controllers and comprehensive in-house manufacturing facilities which we are constantly investing in and improving, we are one of the only touchscreen companies in the world which can be trusted to help take our customers' vision to reality and keep our customers ahead of their competition.

Pushing touch to the limit

We love projected capacitive touch sensing! In fact, we coined the phrase. From "force sensing" to "object recognition" touch control firmware, or from curved to "explosion resistant" touchscreens, we constantly strive to be ahead of the trends and bring our customers the most up-to-date advancements in touch technology.

Case study

SANTANDER WORK CAFÉ

Zytronic touch is key to Santander's work/café branch concept

Location:	Industry:	Application:
Chile	Banking/ Leisure	Work Café Santander

The Santander Work Café, a one of a kind type of bank branch in Chile, turns a common branch into a community space: half bank and half café. It has now been implemented in 20 Santander branches, and Santander is going forward to introduce 20 brand new offices by the end of 2018. Zytronic touch sensors are integrated into the sign-in kiosk and video wall that is a central feature of each Santander Work Café.

Read more at **zytronic.co.uk/case-studies/detail/santander-workcafe/**

PERFORMANCE

Our products are proven in the toughest environments and provide reliable performance 24 hours per day year after year.

Durable and reliable

Our products are unaffected by the presence of dirt, water, dust and scratches on the surface which, when coupled with the ability of our touch technologies to operate through very thick glass, plus in-house toughening facilities, enables us to create sensors capable of withstanding incredible levels of abuse. This means our customers can rest assured that their touchscreen systems are going to have the highest levels of reliability.

Accurate and responsive

Thanks to our state-of-the-art custom-designed touch control electronics, our touch sensors can detect 100 or more simultaneous touches a few millimetres apart, tracking in millisecond-level lightning-quick time, through thick laminated glasses, gloved hands and even other non-conductive materials such as wood, plastic and ceramics.

In any location

For nearly two decades our projected capacitive touch technologies have proven unparalleled ability to work reliably in the most demanding environments and applications – from supervised indoor to unattended outdoor positions, and from climates ranging from the heat of the Saudi Arabian summer to the cold of a Siberian winter.

Case study

MOSCOW METRO

Zytronic to equip more than 1,600 Moscow Metro and bus ticket machines

Location:	Industry:	Application:
Russia	Transportation	Ticket machine

Zytronic has supplied nearly 700 touch sensors for self-service ticket machines installed on the Moscow Metro and at Moscow bus stops. The 17 and 19" sensors were supplied by Elatec, Zytronic's partner in Eastern Europe, to Russian systems integrator Progressive Self-Service Systems, JSC ("PSS"), and are part of a phased roll-out which will eventually extend to over 1,600 machines.

Read more at **zytronic.co.uk/case-studies/detail/moscow-metro/**

OPERATING IN GLOBAL MARKETS

WHERE OUR CUSTOMERS ARE LOCATED

Sales channel partnerships around the world **39**

APAC touch revenue growth **14%**

Our customers are located all over the globe. As noted, our strategy is to progressively move customer facing roles closer to our clients. In recent years, we have created a subsidiary in the USA, registered a presence in Taiwan and operated an office in Japan – all staffed by local sales and technical support people. Our EMEA sales team is based in the UK head office together with a customer service team supporting our clients and sales channel partners worldwide.

Americas

Touch revenue from invoiced sales to the Americas was

£4.0m

which represented 22% of total touch export revenue (2017: £3.8m; 19%).

UK

Touch revenue from invoiced sales to UK customers was

£2.1m

which represented 10% of total touch revenue (2017: £2.6m; 12%).

EMEA

Touch revenue from invoiced sales to the EMEA region was

£5.8m

which represented 32% of total touch export revenue (2017: £7.0m; 34%).

APAC

Touch revenue from invoiced sales to the APAC region was

£8.2m

which represented 46% of total touch export revenue (2017: £7.2m; 35%). The largest revenue generator was from sales into the Gaming market for ultra-large format MPCT™ products.

* Non-touch revenues represent £2.2m (2017: £2.3m). Refer to note 2 for further detail.

WHY OUR CUSTOMERS VALUE OUR TECHNOLOGY

We focus our sales and marketing resources on targeting those customers and applications which most value the core attributes of our unique touch technology:

1. Durability

The impact and vandal resistance of our touch sensing products is renowned. It is this ability to keep working where other touchscreens would have quickly failed that makes Zytronic touch technology the ideal choice for any system which is likely to be subjected to abuse (whether deliberate or accidental) and high levels of "wear and tear".

2. Reliability

With no moving parts, and a proprietary technology capable of detecting a touch through extremely thick glass and plastics, our PCT™ and MPCT™ products are proven to operate faultlessly in some of the most extreme conditions imaginable – and over many years. This outstanding reliability is valued by customers across the market sectors we serve.

3. Adaptability

Our unique manufacturing process and technology allow us to produce touch sensors in a near limitless range of shapes and sizes. The process is also highly flexible, meaning we can respond to requests for one or two pieces, as well as thousands. As our customers typically operate in commercial (and not consumer) electronics markets, their demand for parts are often relatively low, with demand sporadic and project driven. We are well suited to this type of requirement and promote our capabilities.

IT IS OUR AIM TO DELIVER VALUE TO OUR SHAREHOLDERS

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.

What we did in 2017/2018

- The ASIC was launched during fiscal year 2018 and a new family of controllers was released to incorporate this.
- We have initiated new sensor development to consider introducing a complementary touch sensor offering.
- We introduced a new fibre laser bonding system to assist in the industry leading narrow border configurations.
- We had three further patents granted in the USA and China, associated with the MPCT™ 2012 filed patents.

Our priorities for 2018/2019

- We will continue to work within the H2020 Hi-Response consortium project.
- We will review and scope the production or supply of ITO glass sensors.
- We will review the Medical market to determine the scope of R&D investment required to improve our product offerings in this 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 and Cyber security risk

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 Indonesia and in the Middle East.

What we did in 2017/2018

- We grew our revenues in the Gaming market and have further exciting opportunities in the pipeline.
- We increased our direct sales presence in the APAC region through the recruitment of a sales support engineer in Japan.

Our priorities for 2018/2019

- We will continue to develop our presence in the USA through further recruitment into Zytronic Inc.
- We will continue to identify new channel partner representation in countries where we have less coverage.

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 Brexit

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 in the organisation.

What we did in 2017/2018

- We invested in further exhibition equipment to showcase our latest product offerings at the tradeshows at which we exhibited over the year.
- We appointed a Japan-based SEO specialist to better manage our microsite, and a local PR agency as we moved our Asian focus from China to Japan.
- We completed a review of our digital and social media requirements in the UK with the aim of improving our SEO success.
- We have initiated trial pay-per-click campaigns via Google and LinkedIn.

Our priorities for 2018/2019

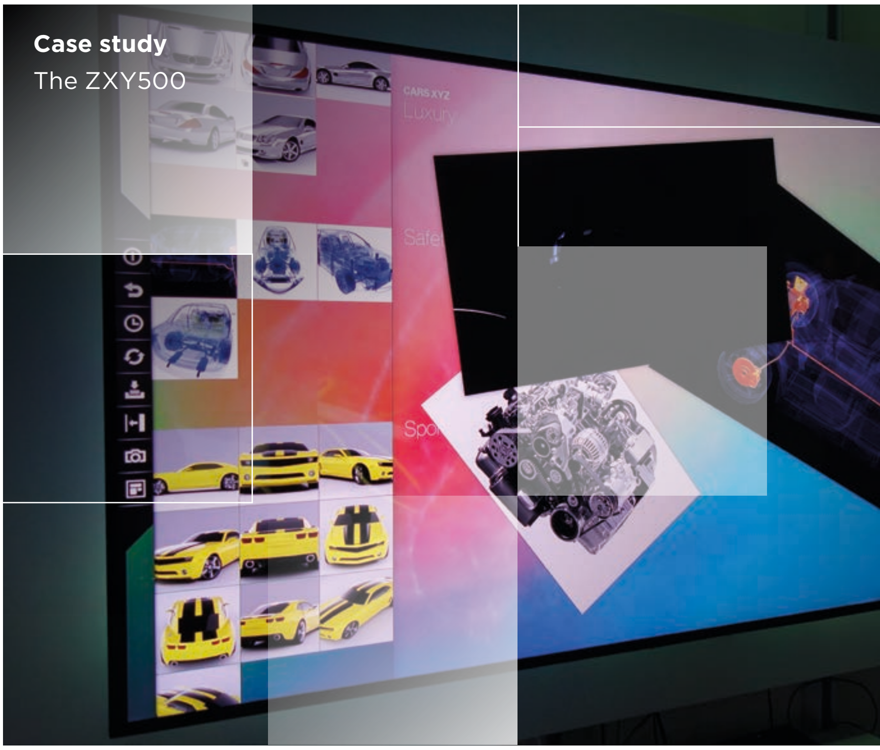
- We will introduce further apprentices to add value into the business.
- We will continue to review our ERP system to ensure it continues to meet our requirements.
- We will invest in new glass processing equipment to enhance product offerings and better utilise our factory space.

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 Brexit



Case study

The ZXY500

Our new ZXY500 controllers reset the standard for speed, accuracy and performance

The ZXY500 range of controllers is based around a unique, proprietary Zytronic ASIC and features multi-touch functionality with palm rejection, higher noise immunity, faster speed of operation and the ability to offer reduced non-active borders for Zytronic multi-touch sensors.

"Zytronic has set a new standard for touch performance, enabling sensors to operate reliably in industrial environments from which they were previously excluded. Even in demanding conditions with high levels of EMI and exposure to contaminants, a ZXY500 enabled touchscreen is a rugged and responsive user interface. It is absolutely ideal for outdoor and unattended applications where it can be fully protected from physical damage and environmental factors without compromising performance."

Ian Crosby, Sales and Marketing Director

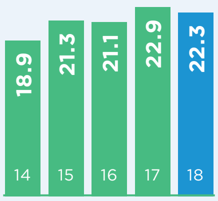
MEASURING OUR PERFORMANCE

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

- The current KPIs consist of: setting targets for and monitoring the level and growth of sales; improving the gross profit margin; controlling the level of overheads (administration expenses); managing cashflow from operating activities; recording the order intake over the year; and monitoring accident levels.
- In addition, the Directors review a CRM opportunities log which the sales team uses to record validated sales opportunities and the key dates in the development of each sales prospect with the customer, volumes and values of the opportunities and expected production commencement dates.

Group revenue (£m)

£22.3m -3%



Definition

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

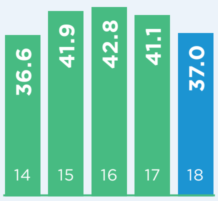
Our performance

Difficult market conditions have adversely impacted sales in the Financial market over the year.

Link to strategy

Gross profit margin (%)

37.0% -10%



Definition

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

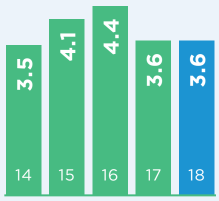
Our performance

Additional headcount and yield issues associated with new product introduction have impacted margin over the year.

Link to strategy

Administration expenses (£m)

£3.6m 0%



Definition

The indirect costs incurred in running the Group.

Our performance

Costs are in line year on year.

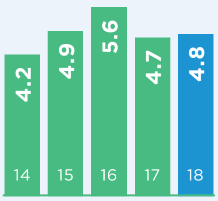
Link to strategy

Link to strategy key:

Innovate Grow Invest

Cash generated from operating activities (£m)

£4.8m +3%



Definition

Cashflow from operating activities adjusted for non-cash items.

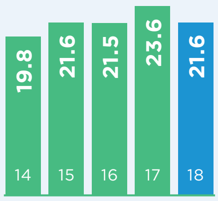
Our performance

Movements in working capital have benefited cash generated from operations.

Link to strategy

Order intake over the year (£m)

£21.6m -8%



Definition

Orders received during the financial year.

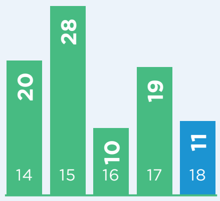
Our performance

Slight year-on-year decline driven by market forces impacting the Financial market.

Link to strategy

Recorded accidents

11 -42%



Definition

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

Our performance

Decrease in accidents occurring over the year, none of which were reportable to RIDDOR.

Link to strategy

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, the 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.

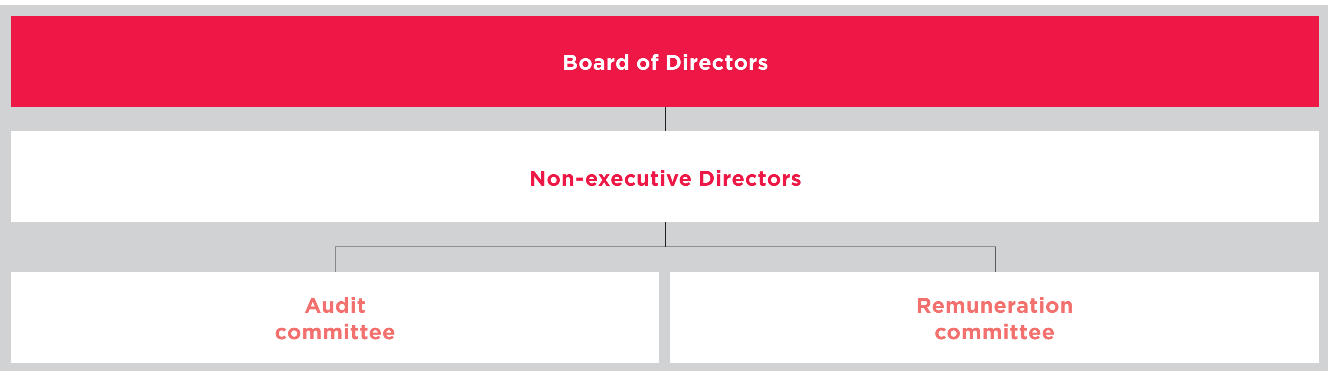
MANAGING OUR RISKS

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

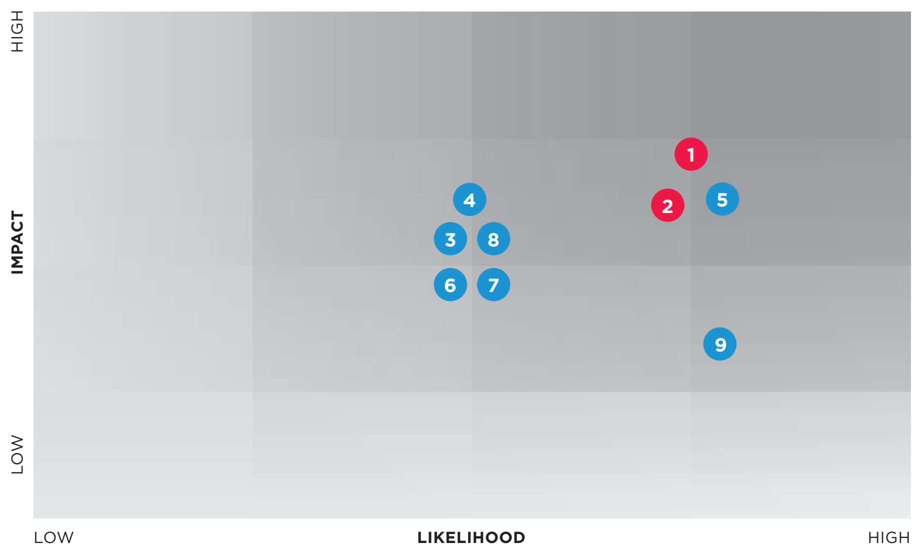
Risk management structure

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.



Risk heat map

1. Downward price pressures from competing technologies
2. Reliance on key customers
3. Advances in competing technologies
4. Increasing costs of raw material supplies
5. Cyber security risk
6. Managing increases in the overhead base
7. Risks associated with currency movements
8. Risks associated with timing of customer projects
9. Brexit



RISK DESCRIPTION	MITIGATING ACTIONS	POTENTIAL FINANCIAL IMPACT	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 in 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. During the year the Group introduced its new MPCT™ ASIC and family of controllers under the ZXY500 series and, in conjunction, new FPC tail designs and sensor configurations were introduced, that provided industry leading narrow border considerations, which had been configured based on years of customer feedback and market desire. The Group has subsequently taken the touch sensor manufacturing process changes and applied them to the re-design and manufacture of the optical display filters which it also produces. The Group continually assesses alternative materials in order to try to drive down costs.		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.
Reliance on key customers			
At present the Group gets 48% of its revenue from three key customers. The risk to the Group is the loss of one or more 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 they stay 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 their product offering. These factors help mitigate the risk of losing key customers and should protect the Group against any changes to trade agreements in regards to a "no deal" Brexit outcome. 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.		Whilst still a high risk, the Group can often have numerous projects with any particular customer which helps to reduce the overall reliance.
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. Further patent applications have been initiated during the year and three more patents have been granted, taking the total to eight.		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 key:

Unchanged · Adverse · Improved · Major · Moderate · Minor

Link to strategy key:

Innovate · Grow · Invest

Risk management *continued*

RISK DESCRIPTION	MITIGATING ACTIONS	POTENTIAL FINANCIAL IMPACT	CHANGE
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.		No change to the risk but management is continually reviewing the supply arrangement particularly around the possible implications of Brexit.
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 confidentially agreements.		None as a new risk this year.
Managing increases in the overhead base			
With the significant time that may occur between meeting potential customers and receiving first orders, management must ensure that the capacity of its factories is adequate for future growth in sales and the development of the business, while managing the profitability of the Group.	This is not straightforward when the business is developing new products and manufacturing processes and when the visibility and timing of orders from customers is unclear. Management uses a comprehensive sales pipeline model that is supported by a CRM system to monitor potential future sales levels. It has built in a degree of flexibility in its two main factories by ensuring that all products can be processed across its two buildings to continue to meet variable demand. Management continues to consider the space requirements in its buildings should increased raw materials need to be held to mitigate against any possible changes to customs clearance procedures when Brexit occurs or new manufacturing processes are added.		Management does not consider a change to this risk but is constantly monitoring and reviewing the processes it has in place to determine their applicability.
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.		The Group sees this as a moderate risk due to the protection mechanisms in place, but will be impacted by any movements in currency.
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 redesigns.		This risk remains unchanged but management continually tries to identify new customers and markets to further mitigate against this in the future.

RISK DESCRIPTION	MITIGATING ACTIONS	POTENTIAL FINANCIAL IMPACT	CHANGE

Brexit

The result of the EU referendum in 2016 increased the level of macroeconomic uncertainty for the Group and the Group has since then continued to consider the impact of what could be a "no deal" scenario. The Directors believe that the Group's unique positioning as a niche player in a global market with a diverse revenue base means it is well placed to minimise any negative impacts. However, some of the risk areas are considered as follows:

RISK DESCRIPTION	MITIGATING ACTIONS	POTENTIAL FINANCIAL IMPACT	CHANGE
Customs delays in importing and exporting goods into the UK, delaying raw materials in and finished goods out to customers.	The Group is a big importer and exporter of goods into and out of the country. There is a risk that goods inward could be impacted by delays at borders, meaning raw materials are delayed going into production. The Group has assessed its space requirements to ensure it can hold higher levels of raw material stock should it need to. The Group also has sufficient cash resources to enable it to do this. At present, 30% of the Group's sales go into the EU and over 90% of these sales are made on an Ex-works basis where the customer is responsible for the delivery. This is a mitigating factor as our obligation to the customer in terms of delivery is when the goods are made available for collection. The Group has also considered applying for the Authorised Economic Operator ("AEO") status but given that the majority of its EU sales are on an Ex-works basis, it would have no control over who its customers choose to use as carriers and therefore could not guarantee that AEO status for those shipments could be maintained.	Moderate	None as a new risk this year.
Fluctuating exchange rates which in turn could impact cash flows.	The Group transacts in three currencies: Pounds, US Dollars and Euros, and adopts natural hedging where possible to mitigate against exchange rate movements. A weakened Pound as a result of a "no deal" scenario would likely have a positive impact on the Group due to the high levels of exports. The Group also has sufficient cash resources to protect against any short term volatility.	Moderate	None as a new risk this year.
Delayed payments from customers subject to working capital stresses.	The Group has very good credit control policies and, while this may impact internal working capital in the short term, it has sufficient cash resources to mitigate against this.	Moderate	None as a new risk this year.

Impact and change key:

Unchanged Adverse Improved Major Moderate Minor

Link to strategy key:

Innovate Grow Invest

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.

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.

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, metals, etc. Since introducing these recycling activities, Zytronic has reduced pollution into the environment by diverting 95% of its waste away from landfill with the remaining 5% being used as RDF fuel.

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.

Health and safety

We are committed to meeting the highest safety standards for all the employees and visitors to our site. We have a dedicated health and safety committee which meets on a regular basis over the year and reports back to the Board of Directors. We continue to reinforce and develop the safety processes in the business and develop a competent workforce with a view to achieving long term improvement gains.

Apprenticeships

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

WE ARE COMMITTED TO TRAINING OUR ENGINEERS OF THE FUTURE

Zytronic apprenticeship scheme

At Zytronic we are not only dedicated to the advancement of our touch sensor technology, but also the talent and knowledge of our staff.

Therefore, we are proud to be 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 3, amongst other apprenticeships.

Zytronic currently employs two apprentices: Liam Jackson, who joined Zytronic in March 2016, to serve as a Production Technician, assigned to the Production Technician department; and Alexander McEwen, who joined Zytronic in 2017 and is assigned to the Quality department. Kyle Gair has recently completed his apprenticeship this year and is currently employed as a multi-skilled Maintenance Craftsperson. Based on the success of the three apprenticeships to date we are looking at recruiting a further two apprentices to start with us in January 2019.

In addition to this apprenticeship programme we are also looking at our first line managers completing a Level 3 Diploma in Management apprenticeship programme over the next two years.

Mark Cambridge, Zytronic CEO, comments: “Despite not having any previous work experience, apprentices can be highly effective in bringing new ideas and a fresh perspective into the workplace; it is our intention to continue to hire and train apprentices to ensure that we have the correct skills and resources available to meet the needs of the business going forward.”

Employee engagement

We strive to create the right conditions for all members of our organisation to give their best, are committed to our goals and values, and are 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 a good mix of long serving employees and newer recruits which brings a good perspective when it comes to business development.

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 but to assist the customer. 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. 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.

INCREASING CASH

> *"The Group continues to generate cash and has recorded an increase in cash and cash equivalents of £0.5m (2017: £1.3m) at 30 September 2018."*

Group revenue

Total Group revenue for the year decreased by £0.6m to £22.3m (2017: £22.9m), as a result of the underperformance of both the touch and non-touch elements of the Financial market compared to the previous year. The Chief Executive Officer's review explains in detail the reasons for this.

Gross margin

Gross margin for the year was 37.0% (2017: 41.1%), and has been impacted by several factors:

- the reduction in units supplied into the Financial market eroded operational efficiencies as the manufacture of these relatively vanilla products provides a volume baseline albeit with month-on-month variability;
- increased costs of raw materials, exacerbated by new product introductions in Q4, due to operational yield issues where product had to be reworked or rebuilt to achieve the desired customer requirements; and
- year-on-year increased labour costs and increased numbers of personnel and overtime in production as a consequence of the above.

Profit before tax

Because of the reduced levels of revenues and the gross margin reduction noted above, Group profit before tax decreased to £4.2m (2017: £5.4m). Distribution costs show a slight year-on-year increase as we have sold more products where the responsibility for distribution sits with the Group. On a year-on-year basis, administration costs are in line with those of 2017 at £3.6m despite this year's figure including the £0.3m costs of the claim litigation described below. All other costs were well controlled, with salary costs showing a saving over the year due to fewer bonus provisions being required given the performance of the Group.

Claim litigation

Over the course of the financial year, ZDL has been in dispute with a former licensor, over the process used to write micro-fine wire to a substrate. The licensor alleged that ZDL owed it duties of confidentiality in relation to information alleged to have been imparted to ZDL in 1999 and asserted that ZDL had breached that duty in the content of its MPCT™ patent applications filed in 2012 and ZDL's processes infringed a patent filed by the licensor in 2014 in response to the alleged breach of duty. These allegations were strongly refuted by ZDL.

A claim was made against ZDL in the Intellectual Properties Enterprise Court, reference IP-2017-000218, towards the end of Q1 2018. On ZDL's instigation, the claim was transferred to the Patents Court in Q2 2018, reference HP-2018-000016.

Whilst ZDL did not accept it was liable, it took a commercial approach to dealing with the claim, mindful of the time and cost associated with High Court litigation and in May 2018 made an offer pursuant to Part 36 of the Civil Procedure Rules by which ZDL agreed to pay £72k in settlement of the claim, which was accepted in September 2018, plus costs which were to be subsequently assessed, if not agreed, which have been settled by the parties with ZDL agreeing to pay £25k. The total costs incurred in the year including ZDL's own legal expenses were £0.3m.

Tax

The Group's tax charge of £0.5m represents an effective tax rate of 13.0%, compared to the £0.8m and 15.0% recorded in the prior year. In the year, the Group continued to claim relief under the Patent Box regime and the utilisation of R&D tax credits. A slight overprovision recorded for 2017 has also benefited the tax charge in the year, the impact of this being a 0.8% reduction in tax on profits.

Earnings per share

There has been no change to the issued share capital of 16,044,041 ordinary shares of 1.0p each over the year and the EPS recorded is 22.7p (fully diluted: 22.7p), which is lower than that reported for last year (2017: 29.0p; fully diluted: 28.8p) by 22% due to lower profits arising.

Dividend

The Directors recommend the payment of a final dividend of 15.2p per share for the year ended 30 September 2018 giving a total dividend for the year of 22.8p per share (2017: 19.0p) and an increase of 20% over last year. Subject to approval by shareholders, the dividend will be paid on Friday 22 February 2019 to shareholders on the register as at the close of business on Friday 8 February 2019.

15.2p

Recommended payment of a final dividend (per share)

Capital expenditure

The Group additions to capital expenditure totalled some £0.7m and was weighted more to intangible assets with £0.4m of spend occurring on the conclusion of the MPCT™ ASIC project and subsequent controller releases as well as new product development. Tangible additions have been for a number of small items of equipment to assist in production capabilities, as well as health and safety improvements. Depreciation and amortisation for the year was the same as last year at £1.1m.

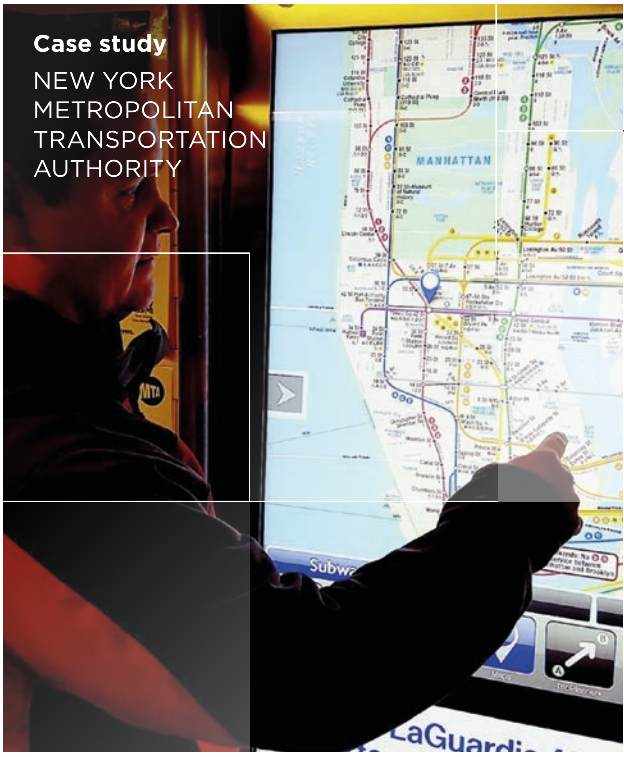
Cash and debt

The Group continues to generate cash and has recorded an increase in cash and cash equivalents of £0.5m (2017: £1.3m) at 30 September 2018. Cash generated from operations (pre-tax) of £5.4m (2017: £5.2m) offset the net cashflow used in financing activities of £3.7m (2017: £2.3m), being the payment of the final and interim dividends, and the net cashflow used in investing activities of £0.6m (2017: £1.0m). Working capital is neutral in the year (2017: £0.4m increase) but the Group is coming under more pressure from its customers to increase payment terms. The Group is mindful of its cash holdings and will continue its policy to invest in internal R&D and capital refurbishments to drive growth, and also maintain its progressive dividend policy as it has sufficient cash and reserves to do so.

The Group maintains an overdraft facility, which is available for use in any of its currencies. The Group also has an FX policy in place whereby it is hedged in both US Dollars and Euros for a period of four months ahead in line with its working capital policies to try to better manage its net GBP inflows from its surplus currency requirements.

The Group continues to be debt free and reported cash and cash equivalents of £14.6m at 30 September 2018 (2017: £14.1m).

Claire Smith
Group Finance Director
10 December 2018



Zytronic touch sensors bring interactivity to the New York Metropolitan Transportation Authority's network of wayfinding digital information kiosks

Location: New York

Industry: Transportation

Application: Subway information kiosks

New York City's MTA comprises the largest and most heavily used public transit system in the Americas. To withstand the rigours of non-stop use, Zytronic's rugged touchscreens are now an integral component of the complex network of interactive wayfinding digital information kiosks used throughout the subway system. The kiosks offer touchscreen interactivity that enables users to view train arrival times, real-time service alerts (both planned and unplanned), interactive wayfinding for all subway lines, and even neighborhood maps to help orient passengers once they are above ground.

As the kiosks were gradually deployed, station by station, Zytronic was able to manufacture small batches of the ZYBRID® touch sensors, giving the MTA the flexibility to execute a phased roll-out to minimise traveller disruption and keep the project on budget. In the field, Zytronic's projective capacitive touchscreen displays far exceed the MTA's durability guidelines, yet continue to deliver an interactive user experience nearly identical to that of a smartphone.

Read more at
zytronic.co.uk/case-studies/detail/new-york-metro/

Board of Directors

Tudor Griffith Davies Ⓐ Ⓡ
Non-executive Chairman

Experience and skills
Tudor has wide industry experience at boardroom level as Chairman, Chief Executive and Executive and Non-executive Director of several public companies. He is currently Chairman of Assetco plc and was formerly Chairman and/or Chief Executive of Hicking Pentecost plc, Stratagem plc, Dowding & Mills Ltd and plc and Castle Support Services plc. He was formerly a partner in Arthur Young (a predecessor firm of Ernst & Young LLP) specialising in corporate finance and recovery. Tudor is Chairman of the audit committee.

Mark Cambridge
Chief Executive

Experience and skills
Mark graduated with a BSc (Hons) in Materials Science in 1986 and has a Securities Institute Certificate in Corporate Finance (2003). Joining the Romag group of companies in 1991, he held the positions of Technical Manager, Quality Manager and Technical and Quality Director up to the demerger and flotation of Zytronic plc. Since 2000 he has overseen the development, market introduction and sales of the ZYTOUCH® touch sensor product and the market launch of ZYPOS® touch sensors. Mark was Sales and Marketing Director of Zytronic Displays Limited from 2002 until his appointment as its Managing Director in February 2006. On 1 June 2007 Mark was appointed to the Board and promoted to Chief Executive on 21 January 2008.

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.

David John Buffham Ⓐ Ⓡ
Independent Non-executive Director

Experience and skills
David has experience of operating in a highly regulated environment as Non-executive Director of Newcastle Building Society. He has corporate governance experience in his roles as the Society's Senior Independent Director and Deputy Chairman. He sits on the Society's board risk committee, which he chaired for eight years until 2018. He also has remuneration and nominations committee experience, sitting on both these for the Society. He is a Director of two subsidiaries of the Society: Newcastle Systems Management Ltd and Newcastle Strategic Solutions Ltd. He is a Director of William Leech (Investments) Ltd, where he additionally sits on the investment committee and serves as a trustee of the William Leech Foundation. Until 2010 David worked for the Bank of England, most recently as the Bank's regional agent for the North East for nine years. During his time with the Bank, David covered a wide range of areas, including risk management, macroeconomic policy and treasury operations.

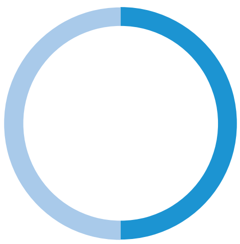
Ⓐ Member of audit committee
Ⓡ Member of remuneration committee
● Committee Chairman

All of the Directors served throughout the financial year and up until the date of signing these financial statements. Sir David Chapman, Bt. served until 21 September 2018 and attended all meetings over the year.

THE BOARD

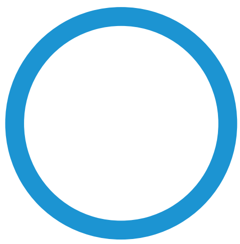
Number of meetings and the attendance of Directors

Board composition



Non-executive Directors: 2
Executive Directors: 2

Board meetings
2018 total: five meetings



100% attendance by all Directors

ACHIEVING HIGH STANDARDS OF CORPORATE GOVERNANCE

As an AIM-listed company, and in line with the London Stock Exchange's recent 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.

Tudor Davies
Chairman

ROLE	RESPONSIBILITIES
The Chairman	• leadership of the Board and ensuring open and effective communication between the Executive and Non-executive Directors; and • 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.
The Chief Executive	• day-to-day management of the Group's business and implementation of the Board-approved strategy; • acting as Chairman 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.
The 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.
The Company Secretary	• responsible for advising the Board on all governance matters; • 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.

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, Tudor Davies, the Non-executive Chairman, Mark Cambridge, the Chief Executive, Claire Smith, the Group Finance Director, and David Buffham, the Independent Non-executive Director, were members of the Board. Sir David Chapman, Bt. was a Board member, the Chairman of the remuneration committee and the Senior Independent Non-executive Director until he retired from the Board on 21 September 2018. He attended all meetings over the year.

The Non-executive Directors demonstrate a range of experience and sufficient calibre to bring 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 26. 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 normally meets at least five times per 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 Chairman, the Chief Executive, the Group Finance Director and the Non-executive Director.

The workings of the Board and its committees *continued*

The Board *continued*

The Chairman and the Non-executive Director have a particular responsibility to ensure that the strategies proposed by the Executive Directors 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 Chairman 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 Chairman 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 26.

Remuneration committee

The remuneration committee is chaired by David Buffham, the Independent Non-executive Director.

The other member is Tudor Davies, the Non-executive Chairman. The committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost, including the remuneration of the subsidiary Directors.

The committee determines the contract terms, remuneration and other benefits for each of the Executive Directors, including performance related bonus schemes, pension rights and compensation payments. Further details of the Company's policies on remuneration, service contracts and compensation payments are given in the Remuneration report. The Board determines the remuneration of the Chairman and the Non-executive Director.

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

Audit committee

The audit committee is chaired by David Buffham. The other member is Tudor Davies, the Non-executive Chairman. The audit committee meetings are also attended, by invitation, by the other Directors. The committee normally meets once a year.

The committee provides a forum for reporting by the Group's external auditor.

The audit committee is responsible for reviewing a wide range of matters, including the half-year and annual financial statements before their submission to the Board, 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 Chairman of the audit committee reports the outcome of audit committee meetings to the Board and the Board receives minutes of the meetings. The audit committee report is presented on pages 30 and 31.

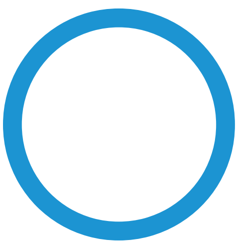
The number of meetings of the committee, and the attendance of members, is shown below.

The Board does not have a formal Board effectiveness process but the Chairman 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 Company. The Company 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.

100%

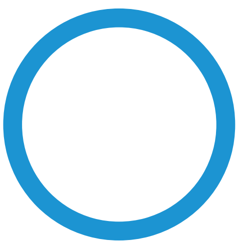
Attendance of Directors at our remuneration and audit committee meetings

Remuneration committee
2018 total: one meeting



100% attendance by all Directors

Audit committee
2018 total: one meeting



100% attendance by all Directors

Relations with shareholders

Communication with shareholders is given high priority. There is regular dialogue with major and/or institutional shareholders, including presentations after the Company'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.

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 Company'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. The Chairman aims to ensure that the Chairman 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 Wednesday 6 February 2019 can be found in the Notice of Annual General Meeting on pages 73 to 75.

In addition, the Independent Non-executive Director is available to shareholders if they have any concerns which contact through the normal channels of the Chairman, the Chief Executive 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 Company has adopted the QCA code and follows its guidance. The Directors set out below and 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 operational 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 Board has reviewed the need for an internal audit function and concluded that this is not currently necessary in view of the small size of the Group and the close supervision by senior management of its day-to-day operations. The Board will continue to keep this under review.

The Group has a whistle-blowing policy and procedures to encourage staff to contact the Chairman 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 20 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 Company and the Group have 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.

> *"The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future."*

Audit committee report

The audit committee comprises two Non-executive Directors, David Buffham (Chairman) and Tudor Davies. David Buffham was appointed Chairman of the audit committee on 21 September 2018 following the resignation from the Board of Sir David Chapman, Bt. Tudor Davies, who was the previous audit committee Chairman and is the Group's Chairman, and who has an accountancy background, remains on the committee. The Board considers that the members collectively have the balance of skills and experience required to discharge their duties effectively.

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 Chairman 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 once a year to review the annual financial statements and has direct access to Ernst & Young LLP ("EY"), the Group's external auditor, at any point during the year. The committee extends its invitation to attend the audit committee meeting to the Executive Directors, once the review of the annual audit process has been concluded. The committee also considers the audit planning documents during the Board meeting in which they are presented. Any issues arising from these papers can be communicated to the Group's auditor either by the audit committee Chairman or the Group Finance Director.

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

David Buffham	1
Tudor Davies	1

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 and Ireland) 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) and supplier and vendor managed inventory arrangements 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 IAS 18 and that there are no cut-off errors or indicators of fraudulent reporting.

Risk of management override of controls – expense accruals and provisions

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Management has internal controls in place to ensure that there are no fraudulent errors in its financial statements. The financial statements are prepared by the financial controller on a monthly basis and are then subsequently checked for errors by the Finance Director. The Chief Executive Officer then reviews before the statements are issued to the Board. There are controls and policies in place to ensure the Group collectively understands its responsibilities in preventing and detecting fraud.

The committee has assessed the audit findings presented by EY and management and concurred that there were no material misstatements in the annual report and financial statements.

Capitalisation of development expenditure and impairment of intangible assets

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 inventory valuation is impacted by the absorption of labour and overheads into inventory at the year end which relies on a calculation of the allowable direct costs which can be absorbed and is therefore open to judgement. This calculation should be based on standard levels of production and only include costs that are attributable to inventory production. There is a risk that costs are incorrectly included (or excluded) from the overhead absorption calculation and that forecast figures used in the calculation do not accurately reflect "standard" levels of production. As a result, the valuation of finished goods and WIP held at the year end may be materially misstated.

In previous years this was a key area of audit risk due to management's judgement that amortisation of intangibles should be included in this calculation. Management has now reassessed this decision and removed this from the calculation. EY concurs with this decision and has now downgraded this risk from a key audit matter.

The committee considers that EY has carried out its duties as the auditor in a diligent and professional manner. As part of the review of auditor independence, EY has confirmed that it is independent of the Group and has complied with applicable auditing standards. EY has held office as the auditor for 18 years; in accordance with professional guidelines, the engagement partner is rotated after five years at most and the current partner is in their second year of the engagement. In assessing the auditor's effectiveness, the committee:

- challenged the work done 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;
- received and considered feedback from management; and
- held private meetings with the auditor that provided the opportunity for open dialogue and feedback between the committee and the auditor without management being present.

In addition, the Chairman 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 EY 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 2018 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.

Remuneration report

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, as its Chairman, and the Group's Chairman. In determining remuneration for the year, the committee has given full consideration to the requirements of the UK Corporate Governance Code.

Remuneration policy

The remuneration of Executive Directors is determined by the committee and the remuneration of the Chairman and 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 33.

Annual bonus

In 2018, the remuneration committee implemented an annual bonus plan linked to corporate performance targets, being the achievement of certain profit before tax ("PBT") measures.

A maximum bonus of 25% of base salary for both the Chief Executive and the Group Finance Director will be payable if these targets are met.

For the financial year 2018 there are no bonus payments payable. The remuneration committee believes that this is a reasonable situation given the financial performance of the Group.

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

Share options and incentive schemes (audited)

The Company had executive share option and incentive schemes, which were designed to promote long term improvement in the performance of the Group, sustained increase in shareholder value and clear linkage between executive reward and the Group's performance. There are currently no share options or incentive schemes in place as at 30 September 2018.

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 Directors

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

Directors' emoluments (audited)

Emoluments of the Directors for the year ended 30 September 2018 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	**2018 £'000**	2017 £'000
Mark Cambridge	**12**	11
Claire Smith	**8**	9
Total	**20**	20

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 2018		30 September 2017	
	Number	**%**	Number	%
Mark Cambridge	**92,458**	**0.58**	92,458	0.58
Tudor Davies	**90,909**	**0.57**	90,909	0.57
Claire Smith	**42,381**	**0.26**	42,381	0.26
David Buffham	**18,500**	**0.12**	18,500	0.12

There has been no change in Directors' shareholdings since 30 September 2018.

Directors’ shareholdings (audited) *continued*

Directors’ emoluments for the year ended 30 September 2018 (audited)

	Salary £’000	Fees £’000	Benefits £’000	Bonuses £’000	**Total emoluments* 2018 £’000**	Total emoluments* 2017 £’000
Non-executive Chairman						
Tudor Davies	—	78	—	—	**78**	76
Executive						
Mark Cambridge	150	—	2	—	**152**	162
Claire Smith	96	—	1	—	**97**	114
Non-executive						
Sir David Chapman, Bt.**	—	46	—	—	**46**	30
David Buffham	—	31	—	—	**31**	30
	246	155	3	—	**404**	412

* Excluding pension contributions.

** Sir David Chapman, Bt. retired from the Board on 21 September 2018. Included in his fees is his notice payment.

Share price during the year

During the year to 30 September 2018, the highest share price was 615.0p and the lowest share price was 390.0p. The market price of the shares at 30 September 2018 was 462.5p.

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.

Directors' report

The Directors present their annual report and financial statements for the year ended 30 September 2018.

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.

Likely future development

Our priorities for 2018/19 are disclosed in the Strategic report on pages 14 and 15.

The Group will continue to identify further opportunities for the development of new product groups and expends a considerable amount on R&D. By continually developing and adapting its technologies the Group has been able to expand the applications of the touch sensors into a widening range of applications and new sectors of business and to promote the Group's products on a global basis. At present 88% of all products are directly exported from the UK, with a large proportion of UK sales eventually being exported as well.

The Group draws strength from the diverse spread of its worldwide selling operations, particularly given the current uncertain economic conditions affecting different countries. The incorporation of Zytronic Inc. has further strengthened the Group's presence in the USA and the employment of a Taiwanese national in the APAC region has increased its presence there. The Group has over the year added further appointees into the APAC region and will pursue this in the USA in the coming year. Management continues to look for and engage with suitable appointees to expand the Group's presence of value-added resellers ("VARs") worldwide.

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 referring to the continuing strength of cashflows which occurred in the year ended 30 September 2018 and the overall net funds position.

No changes were made to these objectives, policies or processes during the years ended 30 September 2017 and 2018.

Research and development

During the year the Group concluded its development on the MPCT™ ASIC, and the subsequent new controllers associated which will reduce the footprint and cost of the Group's multi-touch controllers. Further details on the Group's R&D activities are included in the Chief Executive Officer's review section of the Strategic report.

Results and dividends

The consolidated statement of comprehensive income is set out on page 43. The Group profit after tax amounted to £3.6m (2017: £4.6m). The Directors propose the payment of a final dividend of 15.2p per share (2017: 15.2p). Following the dividend of 7.6p per share paid in July 2018, this will bring the total dividend for the year to 22.8p per share (2017: 19.0p), an increase of 20%.

Directors

The Directors of the Company are shown on page 26. All of the Directors were Directors for the whole of the year. 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 and Parent Company financial statements in accordance with UK law and those International Financial Reporting Standards ("IFRS") as adopted by the European Union.

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;
- 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, as adopted in the European Union, 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, as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

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 26. 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 6 February 2019 at 9.30 am. 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 Ernst & Young 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
10 December 2018

Registration number
03881244

Independent auditor's report
To the members of Zytronic plc

Opinion
In our opinion:

- Zytronic plc's Group financial statements and Parent Company financial statements (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 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- 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.

We have audited the financial statements of Zytronic plc which comprise:

Group	Parent Company
Consolidated statement of financial position as at 30 September 2018	Statement of financial position as at 30 September 2018
Consolidated statement of comprehensive income for the year then ended	
Consolidated statement of changes in equity for the year then ended	Statement of changes in equity for the year then ended
Consolidated cashflow statement for the year then ended	
Related notes 1 to 26 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 9 to the financial statements including a summary of significant accounting policies

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union. 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).

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 below. We are independent of the Group and Parent Company 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	We have identified the following key audit matters, which were of most significance to our audit Significant risks: • Improper revenue recognition • Risk of management override of controls – manual adjustments to revenue, expense accruals and provisions • Capitalisation of development expenditure and impairment of intangible assets
Audit scope	• We performed an audit of the complete financial information of Zytronic plc, Zytronic Displays Limited and Zytronic Inc. • Zytronic Displays Limited and Zytronic Inc. contributed 98% (2017: 99%) of the Group's profit before tax, 100% (2017: 100%) of the Group's revenue and 99% (2017: 99%) of the Group's total assets
Materiality	• Overall Group materiality of £225,000 (2017: £250,000) which represents 5% (2017: 5%) of profit before tax

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 our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the audit committee
Improper revenue recognition **(Revenue – 2018: £22.3m, 2017: £22.9m)** **Refer to the audit committee report (page 30); accounting policies (page 51); and note 2 of the consolidated financial statements (page 52)** IAS 18 Revenue states that revenue from the sale of goods shall be recognised when there has been a transfer to the buyer of the significant risks and rewards of ownership of the goods. The timing of when revenue is recognised is relevant to the Group performance. There are a variety of customer arrangements in place at 30 September 2018, which have different points when the risks and rewards of ownership are transferred to the customer. There is opportunity through management override or error to overstate revenue by recognising revenue ahead of transfer of risks and rewards of the goods to the customer and/or misstate allocation of revenue between periods. The timing of revenue recognition, including around year end, is a significant focus for the audit.	We performed a walkthrough of the revenue transactions and assessed the design effectiveness of key controls. We have gained an understanding of trading terms and conditions with key customers. We have tested the application of these terms through our sample testing. We have performed analytical procedures on significant income accounts, by comparing revenue balances for the year against expectation, and corroborated significant variances. In addition we compared revenue by customer to activity in the prior year to understand revenue trends and movements. We tested material revenue streams using data analytic techniques focusing our detailed testing on unexpected trends and outliers. Our testing identified a correlation between revenue, trade receivables and cash. We substantively tested this correlation through a sample of 25 transactions, which were agreed to invoice and cash recovery. Where there were exceptions in the correlation, these were explained as exchange rate differences, which we corroborated through our testing. To address the risk of management override in revenue, we examined a sample of manual journal entries that were posted to revenue accounts. These manual adjustments which impact revenue, including the credit note provisions, were substantively tested. We performed tests on sales transactions posted near to the year end to ensure that cut off is correctly applied.	Based on the procedures performed, we did not identify any evidence of material misstatement in the revenue recognised in the year ended 30 September 2018. We conclude that revenue has been recognised in accordance with the requirements of IAS 18 Revenue and there are no cut-off errors or indicators of fraudulent reporting.

Key audit matters *continued*

Risk	Our response to the risk	Key observations communicated to the audit committee
Risk of management override of controls – manual adjustments to expense accruals and provisions **(Accruals and provisions – 2018: £767k; 2017: 862k)** **Refer to the audit committee report (page 30)** Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. The risk of management override is greater in areas where there are manual adjustments and judgement and we identified that postings to expense accruals and provisions as the areas most susceptible to this risk. Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.	We performed a fully substantive audit. We do not place reliance on internal controls and processes. However, we perform walkthrough procedures for significant classes of transactions to understand the controls in place to address the significant risks identified above. We evidence that controls are operating as designed. We have identified areas of the accounts which are most susceptible to fraud, either in error or through management override. We have tailored our audit strategy to address these risks, by lowering the testing threshold applied in these areas. We have substantively tested material expense accruals and provisions, including GRNI, holiday pay accrual, payroll accruals and legal provisions, to supporting calculations and source documentation. We have assessed accounting estimates for evidence of management bias, through sensitivity analysis and comparison of methodology with the prior year. To address the risk of management override, we examined a sample of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, and obtained source documentation to ensure that these were appropriately recorded in the general ledger. We have evaluated the business rationale for significant unusual transactions and corroborated such transactions to supporting third party documentation.	We have assessed the control environment through our walkthroughs and conclude that the controls are operating as designed. Accruals and provisions are routine in nature and we have corroborated balances at the year end to underlying support, with no material variances. Our review of journal entries has not identified any indicators of management override. We did not identify any evidence of material misstatement in the revenue recognised in the year, or in expense accruals and provisions recognised as at 30 September 2018.

Key audit matters *continued*

Risk	Our response to the risk	Key observations communicated to the audit committee
Capitalisation of development expenditure and impairment of intangible assets **(NBV of development expenditure – 2018: £1.1m; 2017: £1.1m)** **Refer to the audit committee report (page 30); accounting policies (page 49); and note 9 of the consolidated financial statements (page 56)** Zytronic capitalises development expenditure on certain ongoing and new projects in the year. These costs predominantly relate to internal labour incurred on projects which either are currently income generating or will become so in the future. Under IAS 38 Intangible Assets, labour costs can only be capitalised when the product is viable and the associated costs are developmental in nature, rather than research. There is a risk that costs are capitalised during the research phase, rather than expensed to the income statement, resulting in overstatement of profit and the amounts capitalised within the statement of financial position. In addition, as new products enter production, there is a risk that legacy products become redundant and no longer have an active market for sale and therefore no longer meet the criteria for recognition. If these assets are not appropriately impaired, these would result in an overstatement of amounts capitalised within the statement of financial position.	We have assessed the appropriateness of development cost capitalisation during our audit to ensure that costs are being capitalised in accordance with IAS 38 Intangible Assets. Development costs capitalised in the year amount to £317,000, including internal salary costs of £210,000. We substantively tested significant projects agreeing external costs to supporting invoices, and agreed amounts recorded in respect of internal time, to supporting payroll records to ensure that capitalised costs meet the requirements of IAS 38 Intangible Assets. We have corroborated management's assessment of the appropriateness of development costs capitalised on significant projects by reviewing the status of key projects, understanding where the technology is being used within the production process and confirming that there is customer demand and sales for the product. We have corroborated this to our substantive testing of revenue and inventory. We obtained management's paper on impairment and corroborated the status of significant projects which are assessed for impairment. We did this through independent discussion with the Research and Development Director, and through our substantive testing on revenue and inventory. We reviewed management's assessment against the requirements of IAS 38 to ensure that the assessment was complete and considered all relevant factors. We have reviewed development expenditure capitalised from previous years to confirm that costs previously capitalised related to products which remain in production and are economically viable based on sales orders and forecasts. We did not identify any indicators of impairment.	Based on our procedures, the accounting for research and development costs is in accordance with the requirements of IAS 38 Intangible Assets.

Key audit matters *continued*

In the prior year, our Auditor's report included a key audit matter in relation to the appropriateness of amounts included within inventory relating to labour and overhead costs. The labour and overhead absorption calculation should be based on "standard" levels of production and only include costs that are directly attributable to inventory production. If inappropriate costs are absorbed, this would result in a risk of material misstatement within inventory. In the prior year, we identified a number of non-direct costs which were included in the labour and overhead calculation which heightened the risk of material misstatement. In the current year, management has revised the costs included in the calculation which has mitigated the risk of material misstatement. We therefore do not include this as a key audit matter.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each entity.

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

For the current year, Zytronic Displays Limited and Zytronic Inc. contributed 98% (2017: 99%) of the Group's profit before tax, 100% (2017: 100%) of the Group's revenue and 99% (2017: 99%) of the Group's total assets. We have performed a full scope audit on Zytronic Displays Limited, testing significant balances to an assigned performance materiality of £168,000, which is lower than the statutory materiality. We have performed review procedures on Zytronic Inc, in accordance with an assigned performance materiality of £16,000.

All audit work performed for the purposes of the audit of Zytronic plc, Zytronic Displays Limited and Zytronic Inc. was undertaken by the Group audit team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

Materiality is the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £225,000 (2017: £250,000), which is 5% (2017: 5%) of profit before tax, excluding £310,000 (2017: Nil) of one-off legal fees incurred in the year ended 30 September 2018 as this does not reflect underlying trading performance. We believe that this adjusted figure provides us with a consistent year-on-year basis for determining materiality and is the most relevant performance measure to the stakeholders of the Group.

We determined materiality for the Parent Company to be £483,000 (2017: £482,000) which is 2% (2017: 2%) of equity.

During the course of our audit, we reassessed initial materiality. No change has been identified in the final materiality from the original assessment at planning.

Performance materiality

Performance materiality is the application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely £168,000 (2017: £190,000). We have set performance materiality at this percentage which reflects our expectation of the level of audit differences based on the prior year.

Audit work at components for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the performance materiality allocated to Zytronic Displays Limited was £168,000 (2017: £190,000) and represents 100% of Group performance materiality due to this component being the trading entity of the Group. The performance materiality allocated to Zytronic Inc. was a review threshold of £16,000 (2017: £20,000) due to the limited transactions within this company.

Reporting threshold

Reporting threshold is an amount below which identified misstatements are considered as being clearly trivial.

We agreed with the audit committee that we would report to them all uncorrected audit differences in excess of £11,000 (2017: £12,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our Auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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.

Other information *continued*

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the 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
- the Strategic report and 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 its 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 in relation to which 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 Directors

As explained more fully in the Directors' responsibilities statement set out on pages 34 and 35, 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 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.

A further description of our responsibilities for the audit of the financial statements is located 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.

Sandra Thompson
(Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
Newcastle-upon-Tyne
11 December 2018

Notes:

1. The maintenance and integrity of the Zytronic plc website is the responsibility of the Directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated statement of comprehensive income
For the year ended 30 September 2018

	Notes	2018 £'000	2017 £'000
Group revenue	2	**22,288**	22,892
Cost of sales		**(14,047)**	(13,481)
Gross profit		**8,241**	9,411
Distribution costs		**(461)**	(393)
Administration expenses		**(3,639)**	(3,591)
Group trading profit	3	**4,141**	5,427
Finance costs	5(a)	**(21)**	(24)
Finance revenue	5(b)	**68**	10
Profit before tax		**4,188**	5,413
Tax expense	6	**(541)**	(825)
Profit for the year		**3,647**	4,588
Earnings per share			
Basic	8	**22.7p**	29.0p
Diluted	8	**22.7p**	28.8p

All activities are from continuing operations.

Consolidated statement of changes in equity

For the year ended 30 September 2018

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 October 2016	154	7,766	15,316	23,236
Profit for the year	—	—	4,588	4,588
Tax recognised directly in equity	—	—	72	72
Exercise of share options	6	1,228	—	1,234
Issue of capital reduction shares*	8,919	—	(8,919)	—
Cancellation of capital reduction shares*	(8,919)	—	8,919	—
Dividends	—	—	(2,354)	(2,354)
At 1 October 2017	160	8,994	17,622	26,776
Profit for the year	—	—	3,647	3,647
Dividends	—	—	(3,658)	(3,658)
At 30 September 2018	**160**	**8,994**	**17,611**	**26,765**

* Refer to note 22.

Consolidated statement of financial position
At 30 September 2018

	Notes	2018 £'000	2017 £'000
Assets			
Non-current assets			
Intangible assets	9	**1,585**	1,633
Property, plant and equipment	10	**6,605**	7,030
		8,190	8,663
Current assets			
Inventories	11	**3,021**	2,996
Trade and other receivables	12	**3,738**	3,506
Derivative financial assets	13	**—**	54
Cash and short term deposits	14	**14,626**	14,099
		21,385	20,655
Total assets		**29,575**	29,318
Equity and liabilities			
Current liabilities			
Trade and other payables	15	**1,446**	1,042
Derivative financial liabilities	16	**7**	—
Accruals	15	**767**	862
Tax liabilities		**13**	3
		2,233	1,907
Non-current liabilities			
Government grants	17	**15**	25
Deferred tax liabilities (net)	19	**562**	610
		577	635
Total liabilities		**2,810**	2,542
Net assets		**26,765**	26,776
Capital and reserves			
Equity share capital	21	**160**	160
Share premium	21	**8,994**	8,994
Revenue reserve	22	**17,611**	17,622
Total equity		**26,765**	26,776

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

Mark Cambridge
Chief Executive
10 December 2018

Claire Smith
Group Finance Director

Zytronic Group plc: Registered number 03881244

Consolidated cashflow statement
For the year ended 30 September 2018

	Notes	2018 £'000	2017 £'000
Operating activities			
Profit before tax		**4,188**	5,413
Net finance (income)/costs		**(47)**	14
Depreciation and impairment of property, plant and equipment		**709**	749
Amortisation, impairment and write-off of intangible assets		**438**	424
Amortisation of government grant		**(10)**	(42)
Fair value movement on foreign exchange forward contracts		**61**	(1,013)
Working capital adjustments			
Increase in inventories		**(25)**	(236)
(Increase)/decrease in trade and other receivables		**(232)**	239
Increase/(decrease) in trade and other payables and provisions		**295**	(356)
Cash generated from operations		**5,377**	5,192
Tax paid		**(573)**	(521)
Net cashflow from operating activities		**4,804**	4,671
Investing activities			
Interest received		**65**	10
Receipt of government grant		**—**	19
Payments to acquire property, plant and equipment		**(273)**	(472)
Payments to acquire intangible assets		**(390)**	(600)
Net cashflow used in investing activities		**(598)**	(1,043)
Financing activities			
Interest paid		**(21)**	(24)
Dividends paid to equity shareholders of the Parent		**(3,658)**	(2,354)
Proceeds from share issues relating to options		**—**	1,234
Repayment of borrowings		**—**	(1,148)
Net cashflow used in financing activities		**(3,679)**	(2,292)
Increase in cash and cash equivalents		**527**	1,336
Cash and cash equivalents at the beginning of the year	14	**14,099**	12,763
Cash and cash equivalents at the year end	14	**14,626**	14,099

Notes to the consolidated financial statements

For the year ended 30 September 2018

1. Accounting policies

(a) Authorisation of financial statements and statement of compliance

The financial statements of Zytronic plc and its subsidiaries (the "Group") for the year ended 30 September 2018 were authorised for issue by the Board of Directors on 10 December 2018 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 NE21 5NJ.

The consolidated financial statements have been prepared in accordance with IFRS as adopted for use in the European Union and as applied in accordance with the provisions of the Companies Act 2006. The Directors consider the following accounting policies to be relevant in relation to the Group's financial statements.

(b) New standards and interpretations not yet effective

The Directors are currently considering the impact on the financial statements of the standards below that are issued but not yet effective.

IFRS 9 Financial Instruments (effective for accounting periods commencing on or after 1 January 2018). This new standard introduces new requirements of classification and measurement of financial assets and financial liabilities, impairment and hedge accounting. It replaces IAS 39 Financial Instruments: Recognition and Measurement. Zytronic has measured its financial instruments, of which there are only forward currency contracts, in its statement of financial position and concluded at present that there is minimal impact of this new standard. Management believe that the implementation of IFRS 9 will not have any impact on trade receivables, trade payables and cash.

IFRS 15 Revenue from Contracts with Customers (effective for accounting periods commencing on or after 1 January 2018). The impact of this new standard on Zytronic's revenue recognition policies and processes has been reviewed. The Directors have followed the five-step revenue recognition considerations under this standard for each of its different revenue streams and concluded that revenue is recognised in accordance with the standard.

IFRS 16 Leases (effective for accounting periods commencing on or after 1 January 2019). For lessees, the standard eliminates the classification of leases as either operating or finance leases and introduces a single accounting model. Lessees will be required to recognise assets and liabilities in respect of the minimum lease payment for all leases with a term of more than twelve months, and show depreciation of leased assets and interest on leased liabilities separately in the statement of comprehensive income. Given the insignificance of the Group leasing arrangements being a car, photocopier and a rental unit for storage, the Group has concluded through its analysis that adoption of this standard is unlikely to have a material impact on the financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for accounting periods commencing on or after 1 January 2018). This amendment clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. Zytronic has noted the requirements of this new amendment and confirms that all foreign currency transactions or parts of transactions which are received in advance will be recorded at the date of the transaction. For the purpose of determining the exchange rate, this will be the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are a number of payments or receipts in advance, a date of transaction will be established for each payment or receipt.

(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. The Group does not undertake "blue sky" research. 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.

1. Accounting policies *continued*

(d) Key sources of estimation uncertainty

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

(e) 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.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

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.

(f) Exceptional items

The Group presents as exceptional items on the face of the statement of comprehensive income those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to better understand the elements of financial performance in the year, so as to facilitate comparison with prior periods and to better assess trends in financial performance.

(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 20.

(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
Short leasehold property	–	10–15 years
Plant and machinery	–	varying rates between 5% and 25% 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.

1. Accounting policies *continued*

(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.

(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 expected future sales.

(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) Trade and other receivables

Trade receivables are recognised and carried at their original amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified. Trade and other receivables do not carry interest.

1. Accounting policies *continued*

(m) 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.

(n) 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.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the costs of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(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.

(p) Financial instruments

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.

(q) 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.

1. Accounting policies *continued*

(r) Share-based payment transactions

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any service performance conditions (vesting conditions), other than performance conditions linked to the price of the shares of the Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market vesting condition, which are treated as vesting irrespective of whether or not the market vesting condition or non-vesting condition is satisfied, provided that all other non-market vesting conditions are satisfied.

At each statement of financial position date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market vesting conditions and the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market vesting condition or a non-vesting condition, be treated as vesting. The movement in cumulative expense since the previous statement of financial position date is recognised in the statement of comprehensive income, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled (including when a non-vesting condition within the control of the entity or employee is not met), it is treated as if it had vested on the date of cancellation and any cost not yet recognised in the statement of comprehensive income for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the statement of comprehensive income.

(s) Revenue recognition

Revenue from the sale of goods is recognised when the transfer of control of the goods have passed to the buyer. This is when the goods have been dispatched or made available to the customer, an invoice has been raised for them and the Group's obligations to the customer have been met. There is not usually any significant delay between the occurrence of these three events.

Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes. Appropriate provisions for known returns are deducted from revenue.

(t) 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. The fair value of grants is credited to a deferred income account and released to the statement of comprehensive income over the life of the projects to which they relate.

(u) 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.

Notes to the consolidated financial statements *continued*

For the year ended 30 September 2018

2. Group revenue and segmental analysis

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

For management purposes, the Chief Operating Decision Maker 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 2018		30 September 2017	
	Touch £'000	Non-touch £'000	Touch £'000	Non-touch £'000
Sale of goods – Americas (excluding USA)	541	39	325	43
– USA	3,449	302	3,503	276
– EMEA (excluding UK and Hungary)	4,224	396	4,186	159
– Hungary	1,602	473	2,778	704
– UK	2,119	667	2,564	482
– APAC (excluding South Korea)	2,652	239	2,409	623
– South Korea	5,531	54	4,801	39
	20,118	2,170	20,566	2,326
Total revenue	22,288		22,892	

Individual revenues from three major customers exceeded 10% of total revenue for the year. The total amount of revenue was £10.8m (2017: £11.5m).

The individual revenues from each of these three customers were: £5.0m (2017: £4.5m); £3.0m (2017: £4.7m); and £2.8m (2017: £2.3m).

3. Group trading profit

This is stated after charging/(crediting):

	30 September 2018 £'000	30 September 2017 £'000
R&D costs	359	432
Amortisation and impairment of development expenditure	348	256
	707	688
Auditor's remuneration – in respect of audit services*	63	62
– in respect of taxation compliance services	1	3
– in respect of taxation advisory services	10	14
Depreciation of owned assets	709	749
Amortisation of software	17	33
Amortisation, impairment and write-off of licences	73	135
Cost of inventories recognised as an expense including:	7,835	7,418
– write-down of inventories to net realisable value	—	(12)
– the net movement in the stock provision	13	(37)
Operating lease rentals – minimum lease payments	17	22
Amortisation of capital grants	(10)	(42)
Net foreign currency contract differences	36	(1,013)
Net foreign currency revaluation differences	(79)	1,045

* £13,000 of this relates to the Company (2017: £16,000).

4. Staff costs and Directors' emoluments

	30 September 2018 £'000	30 September 2017 £'000
Wages and salaries	**5,408**	5,356
Social security costs	**493**	471
Other pension costs	**174**	166
	6,075	5,993

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

The total of Directors' emoluments is £404,000 (2017: £986,000*). The aggregate value of contributions paid to money purchase pension schemes includes £20,000 (2017: £59,000) in respect of two Directors (2017: two).

* Included in the £986,000 are gains made on share options.

Amounts paid to the highest paid Director are £152,000 (2017: £440,000) plus a contribution paid to the money purchase pension scheme of £12,000 (2017: £48,000).

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

	30 September 2018 Number	30 September 2017 Number
Production	**149**	146
Administration and sales	**46**	45
	195	191

The information required by AIM rule Schedule 5 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2009 is contained in the Remuneration report under Directors' emoluments, pension contributions, Directors' shareholdings and Directors' share options.

5. Finance costs payable and revenue receivable

(a) Finance costs

Interest payable	30 September 2018 £'000	30 September 2017 £'000
Bank loans and overdrafts	**21**	24

(b) Finance revenue

Interest receivable	30 September 2018 £'000	30 September 2017 £'000
Bank interest receivable	**68**	10

6. Tax

	30 September 2018 £'000	30 September 2017 £'000
Current tax		
UK corporation tax	**621**	576
Corporation tax over-provided in prior years	**(35)**	—
Total current tax charge	**586**	576
Deferred tax		
Origination and reversal of temporary differences	**(45)**	249
Total deferred tax (credit)/charge*	**(45)**	249
Tax charge in the statement of comprehensive income	**541**	825

* Note 19.

Tax relating to items debited to equity

	30 September 2018 £'000	30 September 2017 £'000
Deferred tax		
Tax on share-based payments	**—**	(72)
Total deferred tax debit	**—**	(72)
Tax charge in the statement of changes in equity	**—**	(72)

Reconciliation of the total tax charge

The effective tax rate of the tax expense in the statement of comprehensive income for the year is 13.0% (2017: 15%) compared with the average rate of corporation tax in the UK of 19% (2017: 19.5%). The differences are reconciled below:

	30 September 2018 £'000	30 September 2017 £'000
Accounting profit before tax	**4,188**	5,413
Accounting profit multiplied by the average UK rate of corporation tax of 19% (2017: 19.5%)	**796**	1,056
Effects of:		
Expenses not deductible for tax purposes	**8**	32
Depreciation in respect of non-qualifying items	**24**	33
Enhanced tax reliefs – R&D	**(169)**	(229)
Enhanced tax reliefs – Patent Box	**(79)**	(31)
Effect of deferred tax rate reduction and difference in tax rates	**(4)**	(36)
Tax over-provided in prior years	**(35)**	—
Total tax expense reported in the statement of comprehensive income	**541**	825

6. Tax *continued*

Factors that may affect future tax charges

Under current tax legislation, some of the amortisation of licences will continue to be non-deductible for tax purposes.

There are no tax losses to carry forward at 30 September 2018 (2017: £Nil).

The main rate of corporation tax in the UK reduced to 19% with effect from 1 April 2017. The rate will be reduced to 17% from 1 April 2020. Both of these lower rates have been substantively enacted by the statement of financial position date. As the majority of the temporary differences will reverse when the rate is 17%, this rate has been applied to the deferred tax assets and liabilities arising at the statement of financial position date.

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 have been satisfied for bringing income within the regime. Consequently, Patent Box claims have been made for the 2014 to 2017 accounting periods, and the 2018 benefit has been estimated.

7. Dividends

The Directors propose the payment of a final dividend of 15.2p per share (2017: 15.2p), payable on 22 February 2019 to shareholders on the Register of Members on 8 February 2019. This dividend has not been accrued in these financial statements. The dividend payment will amount to some £2.4m.

	30 September 2018 £'000	30 September 2017 £'000
Ordinary dividends on equity shares		
Final dividend of 10.96p per ordinary share paid on 3 March 2017	—	1,744
Interim dividend of 3.80p per ordinary share paid on 21 July 2017	—	610
Final dividend of 15.20p per ordinary share paid on 9 March 2018	2,439	—
Interim dividend of 7.60p per ordinary share paid on 20 July 2018	1,219	—
	3,658	2,354

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.

	Earnings 30 September 2018 £'000	Weighted average number of shares 30 September 2018 Thousands	EPS 30 September 2018 Pence	Earnings 30 September 2017 £'000	Weighted average number of shares 30 September 2017 Thousands	EPS 30 September 2017 Pence
Profit on ordinary activities after tax	3,647	16,044	22.7	4,588	15,819	29.0
Basic EPS	3,647	16,044	22.7	4,588	15,819	29.0

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

	Earnings 30 September 2018 £'000	Weighted average number of shares 30 September 2018 Thousands	EPS 30 September 2018 Pence	Earnings 30 September 2017 £'000	Weighted average number of shares 30 September 2017 Thousands	EPS 30 September 2017 Pence
Profit on ordinary activities after tax	3,647	16,044	22.7	4,588	15,819	29.0
Weighted average number of shares under option	—	—	—	—	131	(0.2)
Diluted EPS	3,647	16,044	22.7	4,588	15,950	28.8

9. Intangible assets

	Software £'000	Goodwill £'000	Patents and licences £'000	Development expenditure £'000	Total £'000
Cost					
At 1 October 2016	598	235	2,017	2,790	5,640
Additions	—	—	63	537	600
Disposals	—	—	(48)	—	(48)
At 1 October 2017	598	235	2,032	3,327	6,192
Additions	—	—	77	313	390
Disposals	—	—	(91)	—	(91)
At 30 September 2018	**598**	**235**	**2,018**	**3,640**	**6,491**
Amortisation and impairment					
At 1 October 2016	542	—	1,718	1,923	4,183
Provided during the year	33	—	106	256	395
Disposals during the year	—	—	(19)	—	(19)
At 1 October 2017	575	—	1,805	2,179	4,559
Provided during the year	17	—	21	348	386
Disposals during the year	—	—	(39)	—	(39)
At 30 September 2018	**592**	**—**	**1,787**	**2,527**	**4,906**
Net book value at 30 September 2018	**6**	**235**	**231**	**1,113**	**1,585**
Net book value at 1 October 2017	23	235	227	1,148	1,633
Net book value at 1 October 2016	56	235	299	867	1,457

Included within cost is £0.5m (2017: £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 growth 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 three-year period. Growth has been extrapolated forward from the end of the forecasts using a growth rate of 3%, 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 discount rate of 10%, 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 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 on 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 2016	207	3,070	2,451	10,076	15,804
Additions	—	—	12	378	390
Disposals	—	—	—	(27)	(27)
At 1 October 2017	207	3,070	2,463	10,427	16,167
Additions	—	—	—	287	287
Disposals	—	—	—	(111)	(111)
At 30 September 2018	**207**	**3,070**	**2,463**	**10,603**	**16,343**
Depreciation and impairment					
At 1 October 2016	—	523	531	7,361	8,415
Provided during the year	—	61	82	606	749
Disposals	—	—	—	(27)	(27)
At 1 October 2017	—	584	613	7,940	9,137
Provided during the year	—	61	82	566	709
Disposals	—	—	—	(108)	(108)
At 30 September 2018	**—**	**645**	**695**	**8,398**	**9,738**
Net book value at 30 September 2018	**207**	**2,425**	**1,768**	**2,205**	**6,605**
Net book value at 1 October 2017	207	2,486	1,850	2,487	7,030
Net book value at 1 October 2016	207	2,547	1,920	2,715	7,389

11. Inventories

	30 September 2018 £'000	30 September 2017 £'000
Raw materials and consumables	**2,026**	1,695
Work in progress	**427**	449
Finished goods	**568**	852
	3,021	2,996

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 2018 £'000	30 September 2017 £'000
Trade receivables	**3,420**	3,232
VAT recoverable	**109**	59
Prepayments	**209**	215
	3,738	3,506

Trade receivables are denominated in the following currencies:

	30 September 2018 £'000	30 September 2017 £'000
Sterling	**784**	980
US Dollar	**1,647**	1,480
Euro	**989**	772
	3,420	3,232

Out of the carrying amount of trade receivables of £3.4m (2017: £3.2m), £2.1m (2017: £1.6m) is the amount of debts owed by three major customers (2017: four major customers). Regular reviews are undertaken on these major customers so as to ascertain that there are no going concern 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 2018, trade receivables at a nominal value of £1,000 (2017: £6,000) were impaired due to poor payment history. Movements in the provision for impairment of trade receivables were as follows:

	£'000
At 1 October 2016	37
Charge for the year	4
Utilised	(35)
At 1 October 2017	6
Charge for the year	—
Utilised	(5)
At 30 September 2018	**1**

At 30 September, the ageing analysis of trade receivables overdue but not impaired was as follows:

	Neither past due nor impaired	Past due but not impaired <3 months £'000	Past due but not impaired >3 months £'000	Total £'000
2018	**2,941**	**464**	**15**	**3,420**
2017	2,638	577	17	3,232

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. Financial assets

	30 September 2018 £'000	30 September 2017 £'000
Foreign exchange forward contracts	–	54
Total current	–	54
Total non-current	–	–

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. Refer to note 16 for determination of fair value.

14. Cash and short term deposits

	30 September 2018 £'000	30 September 2017 £'000
Cash at bank and in hand	8,580	11,679
Short term deposits	6,046	3,089
Bank overdrafts	–	(669)
	14,626	14,099

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 three months (sometimes with break conditions), depending on the immediate cash requirements of the Group, and earn interest at variable rates.

At 30 September 2018, 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 September 2019.

The fair value of cash and cash equivalents is £14.6m (2017: £14.1m).

15. Trade and other payables

	30 September 2018 £'000	30 September 2017 £'000
Trade payables*	1,322	914
Other taxes and social security costs	124	128
	1,446	1,042
Accruals	767	862
	2,213	1,904

* Terms and conditions of the above financial liabilities are as follows:

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

16. Financial liabilities

Loans	**30 September 2018 £'000**	30 September 2017 £'000
Foreign exchange forward contracts	**7**	–
Total	**7**	–
Total current	**7**	–
Total non-current	**–**	–

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 2018, 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.

17. Government grants

	30 September 2018 £'000	30 September 2017 £'000
At 1 October	**25**	48
Received during the year	**–**	19
Released to the statement of comprehensive income	**(10)**	(42)
At 30 September	**15**	25
Non-current	**15**	25

The government grant was received as part of R&D work on a European Commission ("EC") consortium project.

There are no unfulfilled obligations or contingencies attached to this grant.

18. Obligations under leases

Minimum lease payments under non-cancellable operating leases are as follows:

Group as lessee	**30 September 2018 £'000**	30 September 2017 £'000
Operating leases which expire:		
– not later than one year	**6**	7
– later than one year and not later than five years	**13**	16
	19	23

There are no non-cancellable property leases in place.

19. Deferred tax liability/(asset)

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

	30 September 2018 £'000	30 September 2017 £'000
Deferred tax liability		
Accelerated capital allowances	**360**	403
Capitalised R&D	**193**	200
Other	**9**	(1)
	562	602
Deferred tax asset		
Fair value movement on currency contracts	**3**	9
Pension asset	**(3)**	(1)
	—	8
Disclosed on the statement of financial position	**562**	610

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

	30 September 2018 £'000	30 September 2017 £'000
Deferred tax in the statement of comprehensive income		
Fair value movement on currency contracts	**(6)**	172
Accelerated capital allowances	**(43)**	(28)
R&D tax credits	**(7)**	53
Share-based payments	**—**	63
Other	**11**	(11)
Deferred income tax (credit)/expense	**(45)**	249

20. Financial risk management policy and financial instruments

The Group's principal financial instruments comprise an overdraft facility, 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 September 2019 and is to provide funding for working capital.

20. Financial risk management policy and financial instruments *continued*

Maturity profile of financial liabilities

Year ended 30 September 2018

	On demand £'000	<3 months £'000	3–12 months £'000	1–5 years £'000	Total £'000
Trade and other payables	**1,391**	**698**	**—**	**—**	**2,089**
Foreign exchange forward contracts – outflows	**—**	**1,370**	**635**	**—**	**2,005**
Total	**1,391**	**2,068**	**635**	**—**	**4,094**

Year ended 30 September 2017

	On demand £'000	<3 months £'000	3–12 months £'000	1–5 years £'000	Total £'000
Trade and other payables	1,319	457	—	—	1,776
Foreign exchange forward contracts – outflows	—	1,929	620	—	2,549
Total	1,319	2,386	620	—	4,325

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.

Foreign exchange risk

Foreign currency 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 2018 for a period of 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 vanilla contracts during the year in both US Dollars and Euros. The US Dollar forward vanilla contracts are fixed over a series of four one-monthly contracts at rates between $1.2956 and $1.3292 and are in place until January 2019. The Euro forward vanilla contract is fixed at €1.1216, and is also in place until January 2019.

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
2018				
Sterling	**+10%**	**(150)**	**+10%**	**(76)**
	-10%	**183**	**-10%**	**93**
2017				
Sterling	+10%	(90)	+10%	(50)
	-10%	110	-10%	62

Capital management

The Group's policies on capital management are included in the Directors' report on page 34.

21. Share capital and share-based payments

(a) Share capital

	2018 Number Thousands	2017 Number Thousands	2018 £'000	2017 £'000
Allotted, called up and fully paid				
Ordinary shares of 1p each	**16,044**	16,044	**160**	160

(b) Share premium

	£'000
At 1 October 2017	8,994
Increase in cash on exercise of share options	—
At 30 September 2018	**8,994**

During the year the Group had no share option schemes in place and accordingly no expense was recognised in the statement of comprehensive income.

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the year:

	2018 Number	2018 WAEP Pence	2017 Number	2017 WAEP Pence
Outstanding at 1 October	**—**	**—**	614,513	200.8
Exercised during the year	**—**	**—**	(614,513)	200.8
Outstanding at 30 September	**—**	**—**	—	—
Exercisable at 30 September	**—**	**—**	—	—

22. Revenue reserve

On 22 March 2017, the Group carried out a capital reduction exercise whereby £8.9m of the Group's undistributable profits (within the retained earnings reserve) were capitalised by way of a bonus issue of newly created capital reduction shares. These shares were subsequently cancelled and the £8.9m credited to the retained earnings reserve as distributable profits.

23. Capital commitments

Amounts contracted for at 30 September 2018 but not provided in the financial statements amounted to £238,000 (2017: £113,000) for the Group.

24. Pension scheme commitments

Contributions for the year ended 30 September 2018 amounted to £174,000 (2017: £166,000) and the outstanding contributions at the statement of financial position date were £15,000 (2017: £14,000). 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. There has previously been the option for employees of the Group to opt to pay part of their bonus into their pension.

25. 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:

	2018 £'000	2017 £'000
Salaries/fees	**459**	439
Bonuses	**—**	28
Pension contributions	**23**	24
	482	491

26. Guarantees

Zytronic plc has given a guarantee to Barclays Bank plc in connection with the overdraft facility detailed in note 14.

Five-year summaries

Consolidated statement of comprehensive income

For the five years ended 30 September 2018

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Group revenue	**22,288**	22,892	21,087	21,267	18,886
Cost of sales	**(14,047)**	(13,481)	(12,071)	(12,366)	(11,979)
Gross profit	**8,241**	9,411	9,016	8,901	6,907
Distribution costs	**(461)**	(393)	(378)	(278)	(156)
Administration expenses	**(3,639)**	(3,591)	(4,365)	(4,073)	(3,488)
Group trading profit	**4,141**	5,427	4,273	4,550	3,263
Finance costs	**(21)**	(24)	(23)	(29)	(35)
Finance revenue	**68**	10	20	23	33
Profit before tax	**4,188**	5,413	4,270	4,544	3,261
Tax expense	**(541)**	(825)	(183)	(775)	(301)
Profit for the year	**3,647**	4,588	4,087	3,769	2,960
Earnings per share					
Basic	**22.7p**	29.0p	26.6p	24.7p	19.6p
Diluted	**22.7p**	28.8p	26.1p	24.3p	19.5p
Dividends per share	**22.8p**	14.7p	12.3p	10.3p	9.1p

All activities are from continuing operations.

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

Consolidated statement of financial position

At 30 September 2014 to 2018

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Assets					
Non-current assets					
Intangible assets	**1,585**	1,633	1,457	1,427	1,413
Property, plant and equipment	**6,605**	7,030	7,389	7,807	7,443
	8,190	8,663	8,846	9,234	8,856
Current assets					
Inventories	**3,021**	2,996	2,760	3,214	3,126
Trade and other receivables	**3,738**	3,506	3,745	3,055	3,068
Derivative financial assets	**—**	54	—	—	48
Cash and short term deposits	**14,626**	14,099	12,763	9,833	7,806
	21,385	20,655	19,268	16,102	14,048
Total assets	**29,575**	29,318	28,114	25,336	22,904
Equity and liabilities					
Current liabilities					
Trade and other payables	**1,446**	1,042	1,302	971	1,057
Financial liabilities	**—**	—	1,148	200	200
Derivative financial liabilities	**7**	—	959	89	224
Provisions	**—**	—	205	—	—
Accruals	**767**	862	834	1,201	1,264
Tax liabilities	**13**	3	122	255	30
	2,233	1,907	4,570	2,716	2,775
Non-current liabilities					
Financial liabilities	**—**	—	—	1,144	1,341
Provisions	**—**	—	—	136	139
Government grants	**15**	25	48	59	—
Deferred tax liabilities (net)	**562**	610	260	590	596
	577	635	308	1,929	2,076
Total liabilities	**2,810**	2,542	4,878	4,645	4,851
Net assets	**26,765**	26,776	23,236	20,691	18,053
Capital and reserves					
Equity share capital	**160**	160	154	153	152
Share premium	**8,994**	8,994	7,766	7,552	7,290
Revenue reserve	**17,611**	17,622	15,316	12,986	10,611
Total equity	**26,765**	26,776	23,236	20,691	18,053

Parent Company statement of financial position
At 30 September 2018

	Notes	**2018 £'000**	2017 £'000
Assets			
Non-current assets			
Property, plant and equipment	3	**4,287**	4,400
Investments	4	**10,106**	10,106
		14,393	14,506
Current assets			
Trade and other receivables			
– amounts falling due within one year	5	**12**	9
– amounts falling due after one year	5	**135**	135
Cash and short term deposits		**9,847**	10,311
		9,994	10,455
Total assets		**24,387**	24,961
Equity and liabilities			
Current liabilities			
Trade and other payables	6	**220**	675
Non-current liabilities			
Deferred tax liabilities (net)	7	**170**	177
Total liabilities		**390**	852
Net assets		**23,997**	24,109
Capital and reserves			
Equity share capital	8	**160**	160
Share premium	8	**8,994**	8,994
Revenue reserve		**14,843**	14,955
Total equity		**23,997**	24,109

The Company's profit for the year was £3,546,000 (2017: £2,990,000).

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

Mark Cambridge
Chief Executive
10 December 2018

Claire Smith
Group Finance Director

Zytronic Group plc: Registered number 03881244

Parent Company statement of changes in equity

For the year ended 30 September 2018

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 October 2016	154	7,766	14,319	22,239
Profit for the year	—	—	2,990	2,990
Exercise of share options	6	1,228	—	1,234
Dividends	—	—	(2,354)	(2,354)
At 1 October 2017	160	8,994	14,955	24,109
Profit for the year	—	—	3,546	3,546
Dividends	—	—	(3,658)	(3,658)
At 30 September 2018	**160**	**8,994**	**14,843**	**23,997**

Notes to the Parent Company financial statements
For the year ended 30 September 2018

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 10 December 2018. 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 2018.

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;
- 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;
- the requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards paragraphs 6–21 to present an opening statement of financial position at transition; and
- the requirements of paragraphs 91–99 of IFRS 13 Fair Value Measurement.

1. Accounting policies *continued*

(c) Share-based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any service performance conditions (vesting conditions), other than performance conditions linked to the price of the shares of the Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market vesting condition, which are treated as vesting irrespective of whether or not the market vesting condition or non-vesting condition is satisfied, provided that all other non-market vesting conditions are satisfied.

At each statement of financial position date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market vesting conditions and the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market vesting condition or a non-vesting condition, be treated as vesting. The movement in cumulative expense since the previous statement of financial position date is recognised in the statement of comprehensive income, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified, or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. A reduction is not recognised if this difference is negative.

Where an equity-settled award is cancelled (including when a non-vesting condition within the control of the entity or employee is not met), it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the statement of comprehensive income for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the statement of comprehensive income.

(d) 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.

1. Accounting policies *continued*

(e) Investments

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

(f) Deferred taxation

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 taxation 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.

(g) 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.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the costs of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2. Auditor's remuneration

Auditor's remuneration for the year ended 30 September 2018 was £13,000 (2017: £16,000).

3. Property, plant and equipment

	Land £'000	Freehold property £'000	Long leasehold property £'000	Total £'000
Cost				
At 1 October 2017 and 30 September 2018	**207**	**3,070**	**2,097**	**5,374**
Depreciation				
At 1 October 2017	—	584	390	974
Provided during the year	—	61	52	113
At 30 September 2018	**—**	**645**	**442**	**1,087**
Net book value at 30 September 2018	**207**	**2,425**	**1,655**	**4,287**
Net book value at 1 October 2017	207	2,486	1,707	4,400

4. Investments

Investments in subsidiary companies

	2018 £'000	2017 £'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 NE21 5NJ.

5. Trade and other receivables

	2018 £'000	2017 £'000
Prepayments and accrued income	**12**	9

Amounts falling due after more than one year are:

	2018 £'000	2017 £'000
Amounts owed by Group undertakings	**135**	135

6. Trade and other payables

	2018 £'000	2017 £'000
Trade creditors	**2**	2
Other creditors and accruals	**76**	73
Other amounts owed to subsidiary undertakings	**117**	560
Corporation tax	**25**	40
	220	675

7. Deferred tax liability

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

	2018 £'000	2017 £'000
Accelerated capital allowances	**170**	177
At 1 October	**177**	184
Credit in the statement of comprehensive income	**(7)**	(7)
At 30 September	**170**	177

8. Equity share capital

(a) Share capital

	2018 Number Thousands	2017 Number Thousands	2018 £'000	2017 £'000
Allotted, called up and fully paid				
Ordinary shares of 1p each	**16,044**	16,044	**160**	160

(b) Share premium

	£'000
At 1 October 2017	8,994
At 30 September 2018	**8,994**

9. 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 September 2019. This facility is to provide funding for working capital.

Notice of Annual General Meeting

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 9.30 am on 6 February 2019 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 2018 and the reports of the Directors and Auditor thereon.
2. To pay a final dividend of 15.2p per ordinary share of 1.0p for the year ended 30 September 2018 on Friday 22 February 2019 to members on the Register at the close of business on Friday 8 February 2019.
3. To re-elect Mark Cambridge as a Director.
4. To re-appoint Ernst & Young 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 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 £52,945.34, provided that (unless previously revoked, varied or renewed) this authority shall expire at the conclusion of the Company's Annual General Meeting held in 2020 (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 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 £8,022.02,

   such authority to expire at the conclusion of the Company's Annual General Meeting held in 2020 (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 £8,022.02; 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 2020 (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.

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 1,604,404;

   (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 2020 (or, if earlier, at the close of business on the date which is 15 months after the date of this Annual General Meeting) 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 employees' share scheme or for cancellation.

By order of the Board

Claire Smith
Company Secretary

Zytronic plc
Whiteley Road
Blaydon-on-Tyne
Tyne and Wear
NE21 5NJ

10 December 2018

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 Monday 4 February 2019 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 4 February 2019; 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 1.0p each in the capital of the Company registered in their name at that time. Changes to entries on the Register of Members after 4.00 pm on Monday 4 February 2019 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

Secretary
Claire Smith
Email: claire.smith@zytronic.co.uk

Registered office
Whiteley Road
Blaydon-on-Tyne
Tyne and Wear
NE21 5NJ

Tel: 0191 414 5511
Fax: 0191 414 0545

Registration number
03881244

Stockbrokers and nominated adviser
N+1 Singer
One Bartholomew Lane
London
EC2N 2AX

Registrars
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS13 8AE

Auditor
Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle-upon-Tyne
NE1 4JD

Bankers
Barclays Bank plc
71 Grey Street
Newcastle-upon-Tyne
NE99 1JP

Handelsbanken
8 Keel Row
The Watermark
Gateshead
NE11 9SZ

Santander Corporate Banking
Baltic Place
South Shore Road
Gateshead
NE8 3AE

Yorkshire Bank
131–135 Northumberland Street
Newcastle-upon-Tyne
NE1 7AG

Regions Bank
2653 Marietta Hwy
Canton, GA
30114
USA

Solicitors
Ward Hadaway
Sandgate House
102 Quayside
Newcastle-upon-Tyne
NE1 3DX

Muckle LLP
Time Central
32 Gallowgate
Newcastle-upon-Tyne
NE1 4BF

Keep in touch

Find out more about our latest products,
business news and touchscreen developments online.

Find us on Facebook
@ZytronicDisplaysLtd

Follow us on
Pinterest/Zytronic

Connect with us on
LinkedIn

View a range of corporate and product
videos on our YouTube channel
youtube.com/ZytronicTouchSensor

Follow us on Twitter
@Zytronic

Join us on Google+
+ZytronicCoUK

Visit our investor site at
www.zytronicplc.com

Follow us on Instagram
@ZytronicDisplays

Produced by
designportfolio

Zytronic plc
Whiteley Road
Blaydon-on-Tyne
Tyne and Wear
NE21 5NJ

Tel: 0191 414 5511
Fax: 0191 414 0545
Web: www.zytronicplc.com