ZYTRONIC

Zytronic plc

Annual Report and Financial Statements 2019

Pioneering the touchscreen revolution for 20 years

Zytronic's vision is to make its unique touch sensor technology pre-eminent in markets that require medium to large sized touch interactive systems.

OUR TOUCHSCREENS ARE EVERYWHERE

GAMING

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

OTHER

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

SIGNAGE

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

INDUSTRIAL

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

VENDING

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

BANKING

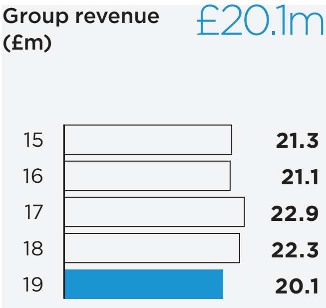
Our vandal-resistant PCT™ touch sensors have been trusted by global ATM and financial kiosk manufacturers for over a decade to provide reliable self-service performance both indoors and outdoors.

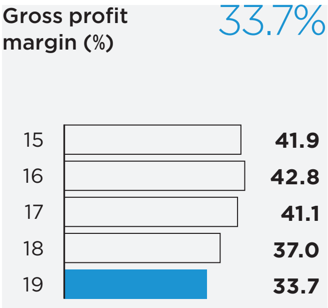
See our business model **P12–13**

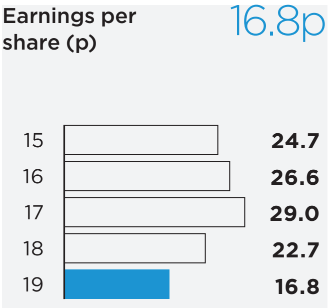
OUR YEAR IN BRIEF

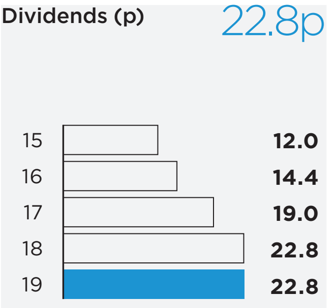
- Group revenue of £20.1m (2018: £22.3m), impacted by a reduction in revenues in the gaming market
- Gross margin reduced to 33.7% (2018: 37.0%) due to the change in product mix sold, with fewer large format sensors being invoiced in the year
- Profit before tax of £3.1m (2018: £4.2m), reflecting reduced revenue and lower gross margin
- Basic earnings per share of 16.8p (2018: 22.7p)
- Final dividend of 15.2p proposed (2018: 15.2p), bringing total dividends for the year to 22.8p (2018: 22.8p)

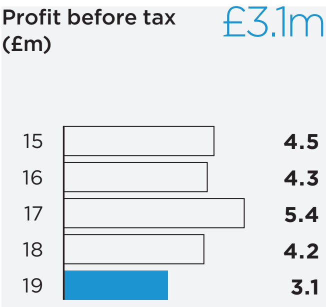
FINANCIAL OVERVIEW

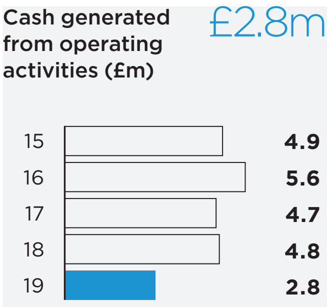












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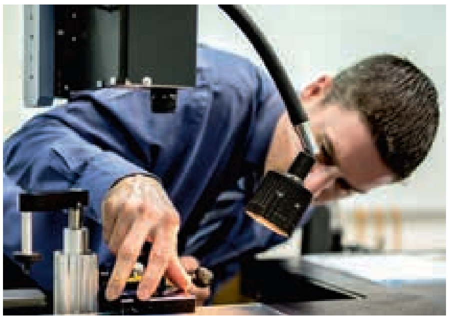
Our technology empowers people all over the world

From finding the way to a departure gate to picking the right books for school, touchscreens help people every day and everywhere.

Why invest in Zytronic?

- Strong balance sheet and cash provide sound basis for growth
- Diversified technologies, products, markets and applications
- Investment in our already proven and trusted technology
- Strength of opportunities pipeline
- Excellence in manufacturing

What we do



DESIGN

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

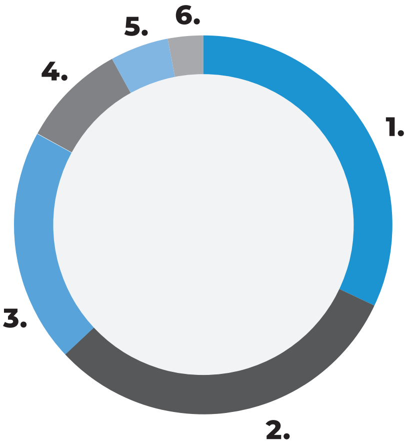
SERVICE

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

PERFORMANCE

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

Market area



1. GAMING

Sales

£6.4m

32% of total revenue (£8.5m sales in 2018, 38% of total revenue).

2. FINANCIAL

Sales

£6.2m

31% of total revenue (£6.4m sales in 2018, 29% of total revenue).

3. VENDING

Sales

£4.0m

20% of total revenue (£3.0m sales in 2018, 13% of total revenue).

4. INDUSTRIAL

Sales

£1.7m

9% of total revenue (£1.9m sales in 2018, 9% of total revenue).

5. SIGNAGE

Sales

£1.1m

5% of total revenue (£1.2m sales in 2018, 5% of total revenue).

6. OTHER

Sales

£0.7m

3% of total revenue (£1.3m sales in 2018, 6% of total revenue).

Some of our customers

Coca-Cola NCR DIEBOLD NIXDORF ARISTOCRAT

Our products

ZyFilm® ZyTouch®
ZyBrid® ZyPoS®

Touch sensors

At Zytronic we are leaders in projected capacitive touch technology, specialising in highly durable and reliable products, where our proprietary PCT™ touch sensing products, provide both precision and resilience at the fingertips of the end-user.

Touch controllers

We have developed an extensive range of touch controllers to work with our portfolio of highly durable, projected capacitive touch sensing products. Supporting sizes from 5–86" our controllers offer single or full multi-touch functionality, and benefits including smart, "plug and play" operating system support (making it quick and easy to set up our touch sensors), and outstanding "palm rejection" capability (to help reduce incidents of "false" touches, when users lean on a touch sensor).

Our technology is **proven, trusted** and **unique**

Single touch

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

Multi-touch

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

Customisation options

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

Reliability

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

Sensitivity

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

High-impact resistance

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

Internationally award-winning and patented technologies

We develop and manufacture highly durable and adaptable touchscreens in a near limitless range of shapes and sizes, ideally suited for the most demanding self-service, industrial and public-facing interactive systems. We have been developing and manufacturing touch sensors for over 15 years (and processing glass components for decades before that). Our range of patented and award-winning projected capacitive technology (PCT™ and MPCT™) touchscreens offer the ultimate solution for challenging environments in signage, gaming, vending, financial and industrial applications.

More detail **P12**

Interactive signage

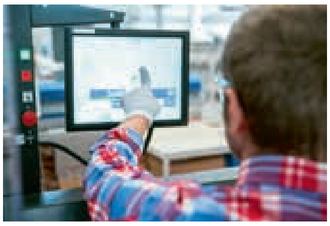
Our large format PCT™ touch sensors are increasingly used in digital signage, and are reliable in all conditions.

Self-service

Our durable, customisable touchscreens enable self-service equipment to be deployed in any location.

Damage resistance

Our vandal-resistant touch sensors have been trusted by global ATM manufacturers for over a decade.



Highly durable

Our sensors provide unrivalled performance in some of the harshest environments.

Our unique approach

Any shape or size

Our award-winning multi-touch MPCT™ touch sensors are available in any size or shape up to 86".

A variety of materials

Our products can be specified in a wide range of glass thicknesses and strengthening treatments.

Expertise and experience

Our experienced engineers create bespoke products to the exact requirements of our clients and their customers.

Flexible manufacturing

Our highly flexible manufacturing processes allow custom designs, irrespective of the number required.

Strong pipeline of opportunities

As announced in May this year, trading results have been lower than the prior year, but our strong liquidity position has enabled us to maintain the dividend at the same level as last year.

Results

There was improvement in trading in the second half of the year with profits improving by 21% on revenues 12% ahead of the first half.

Revenue for the year ended 30 September 2019 was £20.1m (2018: £22.3m) and profit for the year after tax was £2.7m (2018: £3.6m).

The decline in revenue was principally due to a fall in sales to our largest market, the gaming sector, where revenues reduced from £8.5m to £6.4m. The lack of growth this year has resulted not from a lack of opportunities, but from a slower than normal conversion of the larger projects into sales. As Mark Cambridge, CEO, explains in his review, in terms of opportunities the number of live projects has increased by 41% during the year.

Cash generation

The cash position has reduced over 2019 to £13.1m (2018: £14.6m) as cash generation was negative by £1.5m after payment of dividends of £3.7m (2018: £3.7m).

Dividend

The Directors have recommended a final dividend of 15.2p, which, together with the interim dividend of 7.6p paid in July 2019, will result in a total dividend of 22.8p (2018: 22.8p).

Shareholder value

Over the last four years, we have pursued a policy of increasing the dividend considerably ahead of earnings, principally because our trading and cash generation were strong and we have had the additional comfort of a growing cash balance.

However, the last two years' results have been lower than expected, and dividends at current levels compared with performance are only sustainable by our strong liquidity position. We are also cognisant of the potential effect on the share price with a current yield of 11%* from an uncovered dividend.

The Board is already undertaking a strategic review of its operations to improve future returns for shareholders and, as part of that review, the subject of the appropriate level of future distributions compared with earnings and cash resources is under consideration.

Outlook

On the basis of the first two months of trading being at lower levels than last year, we are cautious about the short term. However, as we have seen in prior years, trading results in the second half can improve as the year progresses and the level of enquiries for new projects are higher than last year.

Tudor Davies
Chairman
9 December 2019

* Note – dividend yield is calculated using a share price of 200p as at mid-morning on 3 December 2019.

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.

Our strategy P14–16
Sustainability P22–23

CHIEF EXECUTIVE OFFICER'S REVIEW

Investing in new products and opportunities

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

Sales

Revenue for the year was £20.1m, compared with £22.3m in 2018, with the historical norm of a stronger performing H2 repeating itself with H1 and H2 contributing £9.5m and £10.6m respectively (2018 H1: £10.6m; H2: £11.7m).

However, unlike the prior year, where a reduction in financial touch product revenue impacted the performance, the issue in 2019 was not associated with the financial market, which did decline by £0.2m due to a further £0.6m reduction in ATM display filter sales, but was related to the £2.1m reduction in the revenue generated from the casino-based gaming market. As a consequence of the casino revenue reduction, export revenue declined to £18.0m (2018: £19.5m), as this impacted Asia Pacific ("APAC") sales, reducing by £2.0m to £6.5m (2018: £8.5m), as this is where the majority of the integration of our products with display units for that market occurs. Sales to the Americas region (North, Central and South America) were £3.7m (2018: £4.3m) and affected by financial sales, and the Europe, Middle East and Africa ("EMEA") region were £7.8m (2018: £6.7m) as discussed under vending.

When evaluating ZDL's sales mix, several intrinsically linked factors have a significant and well-documented influence, primarily the number of touch sensor units produced and their mix based on size, shape and sensing technology formats, across the diverse set of applications and markets.

The volumes and respective revenue generated from sensors based on size are presented in the table overleaf.

From the data, it is evident that it is the large format sensors that exhibited the greatest proportional reduction in both units sold and consequently revenue generated.

Within the size ranges ZDL produces several shape and technology variants in the medium and large sensor categories, where the sensors can be any combinations of either flat or curved and either PCT™ (single-touch) or MPCT™ (multi-touch) in functionality.

Of the total units supplied, 17,000 units were of an MPCT™ configuration (2018: 17,000), although after the 2018 release of our ZXY500 series controllers, incorporating the MPCT™ Application Specific Integrated Circuit ("ASIC"), we saw a 2,000-unit increase in the volume of medium-sized MPCT™ sensors supplied to 7,000 units. Of sensors with a curved shape we shipped 7,000 units, of which 96% were of an MPCT™ type (2018: 10,000, 99%).

The strategic sales and marketing initiatives during 2019 and going forward in 2020 continue to be centred around advancing the organic growth potential of our touch interactive component solutions for self-service and commercial use, with a continued focus on large format, curved shaped and MPCT™ designs.

Sales continued

Gaming, which is predominantly casino-based upright cabinet designs, has continued to be our top revenue-generating market, albeit with a marked reduction of £2.1m against the prior year to £6.4m (2018: £8.5m). In total 19,000 touch units were produced, 56% being large format (2018: 23,000, 66%), and 8,000 units being large MPCT™ designs, of which 7,000 units were curved (2018: 10,000, 10,000). The revenue and volume drop being related to two existing projects moving significantly towards end of life ("EOL") which, combined, contributed to a reduction of £3.3m against the prior year, some of which was offset by a number of newer projects as they moved into production.

Financial, which are ATM products, exhibited a slight decline in revenue of £0.2m to £6.2m (2018: £6.4m), but maintained its position as our second largest revenue-generating market. However, although exhibiting year-on-year touch growth, the underlying ATM market and its supply chain continue to be eroded by the effects of the expansion of the cashless, mobile and digital banking society.

Vending remained our third market in terms of revenue at £4.0m (2018: £3.0m) and continued to be our second highest market in terms of touch units produced at 32,000 units (3,000 MPCT™; 2018: 3,000), 4,000 units higher than the prior year. The year benefited from a completed project for a Spanish customer which supplied a new rail information and ticketing hardware system into Saudi Arabia.

Industrial revenue was £1.7m (2018: £1.9m), comprising applications for human machine interface ("HMI") control panels and non-transactional kiosks. The volume of touch sensors sold decreased by 4,000 units to 20,000 units, of which 57% were small PCT™ format and 43% medium PCT™ (2018: 53%, 47%).

Signage market revenue was £1.1m (2018: £1.2m), with product size and configuration mix having a large effect as we saw a near 50% reduction in the volume of units sold to 3,000 units, of which 40% were of a large MPCT™ format (2018: 6,000, 17%).

The other markets, which are predominantly small PCT™ format touch products and various niche display products, are open to much greater alternative supplier competitive pressures in total, saw a further decrease in revenue to £0.7m (2018: £1.3m), as touch units supplied for the long running cooktop project went EOL (2019: 0 units; 2018: 5,000).

Strategic sales and marketing initiatives

The strategic sales and marketing initiatives during 2019 and going forward continue to be centred around advancing the organic growth potential of our touch interactive component solutions for self-service and commercial use, with a continued focus on large format, curved shapes and MPCT™ designs to provide our bespoke touch componentry to equipment designers and manufacturers across several markets, as detailed above, whilst increasing the volume and level of opportunities across all geographies.

As a UK operating business with 90% of sales represented by exports, we employ a team of sales and business development managers located at our headquarters to manage EMEA, and similar in international locations to manage locally our major markets, being the USA, SE Asia and Japan.

	2019		2018		Variance	
Sensor size	Units ('000)	Sales (£m)	Units ('000)	Sales (£m)	Units ('000)	Sales (£m)
Small (≤14.9")	**30**	**1.6**	35	1.7	(5)	(0.1)
Medium (15.0–29.9")	**79**	**8.7**	79	8.5	—	0.2
Large (≥30.0")	**15**	**6.0**	19	7.2	(4)	(1.2)
Total	**124**	**16.3**	133	17.4	(9)	(1.1)

In support of the sales and marketing function, we have built a global network of channel partners, which we continually address for suitability based upon their performance, as well as local market preference and requirements. These partners are a combination of commissioned manufacturers' representatives or agents, who aid our direct sales team, and value-added resellers ("VARs"), which buy and resell our products (indirect sales). The type and choice of channel partner varies by what is the right construct for each specific territory. The current composition of our global channel partners is presented on the ZDL website and can be found at https://zytronic.co.uk/where-to-buy/.

During the year we changed our trade public relations company to one that was able to provide unified global coverage across the regions and market-specific areas in which we trade. Several new international case studies were also issued during the year, highlighting various applications of our technology, plus whitepapers, "thought leadership" articles and new technology advancements. These can be viewed online at https://zytronic.co.uk/about-us/.

We continue to see the benefits of directly participating in relevant market trade shows, primarily as regional networking opportunities with customers, suppliers and channel partners. In 2019, ZDL exhibited at several events: Global Gaming Exhibition, October 2018, USA; Integrated Systems Europe, February 2019, Netherlands; and Digital Signage Exhibition, March 2019, USA. Additionally, our products were also well represented at numerous other regional tradeshows around the world by both our channel partners and our customers.

To advance the customer engagement process, we have also invested in a bespoke demonstration room within our development facility, to showcase our technical capabilities and advancements in several simulated real-world market uses.

Opportunities analysis

Due to the bespoke, long maturation and project based nature of our business, the creation, evaluation and monitoring of opportunities is critical to the ongoing business performance.

The procedure for the analysis of opportunities within Zytronic has been well documented in prior years and we continue to utilise our tailored customer relationship management ("CRM") system to manage their dynamically changing status from lead generation through "Enquiry", "Prospect" and "Project" status to production with only the sensitised data of Projects incorporated into our active quarterly forecasting model.

As at 30 September 2019, there were 494 opportunities in the system with a projected value of £83m, 58 classified as Projects, and are expected to generate £13.4m of sales over their production cycle. This compares with data as at 30 September 2018 of 414, £65m, 41 and £8.0m respectively.

Strategic research and development

The research and development team has undertaken a number of activities during the course of the year, in particular one development relates to the use of our unique micro-fine filament system to not only provide our unique touch sensing capability, but also to provide invisible micro-tracks to allow for power and data transfer from mechanical devices such as buttons, and LED lighting features which appear unconnected and floating within the touch active and display viewable area. This work has resulted in a further UK patent application being made during the year. The casino cabinet market is showing interest in this type of technology as they look to further enhance the functionality experience and aesthetics of its video button deck player area.

Development continued with third party providers on the further evaluation of alternative materials and processes to our present micro-fine filament system as a sensing medium, particularly around the well-established solution of mixed metal oxide coatings as a conductive medium. To determine the potential of market acceptance of a ZDL derived product, a soft launch pack, incorporating datasheets and samples is being established and feedback sought from several of our channel partners.

Significant firmware development continued on the MPCT™ ASIC ZXY500 series controllers to develop an enhanced functionality which will support on a single piece of glass an active multi-touch sensor area, in combination with a separate touch sensing fully functioning keyboard and configurable function keys, for industrial type HMI control panels. Demonstration systems have been provided to several of our channel partners.

The team has also worked closely with operations on the design and development of bespoke fourth industrial revolution ("4IR") data acquisition systems, for integration on our filament dispensing and 2D writing equipment to measure and improve upon the overall equipment efficiencies of these devices.

Operations

Over the course of 2019, the productive labour headcount was steadily reduced to align with the demand cycles. The higher headcount at the beginning of the year was associated with the continuation of the Q4 yield issues reported last year. However, with the observed reductions in gaming, and expected reduction in the financial market, we have undertaken a further review of production staffing levels, which has resulted in a temporary reduction in headcount.

During the year, we have continued with our tailored apprenticeship scheme and with two former apprentices having successfully finalised their schemes and taking permanent roles within the business, we initiated schemes for a further two new apprentices. In total we have three active apprentice schemes running covering, technical, quality and maintenance roles.

With regards to the Q4 2018 yield issues, significant work continued in the early part of the year to understand the issues observed and bring the yields of the affected processes back in line with expectations. This work was not fully concluded until November 2018. For the remainder of the year we have observed an average 34% yield improvement compared to the Q4 period, across the range of touch sensing products produced.

Finally, I would like to conclude the review, by thanking all Zytronic employees, for their valued contribution to the business over the course of the reporting period and their continuing commitment.

Mark Cambridge
Chief Executive Officer
9 December 2019

Case study

Location: Worldwide

Sector: Vending

Fast charging stations for electric vehicles incorporate Zytronic touch technology

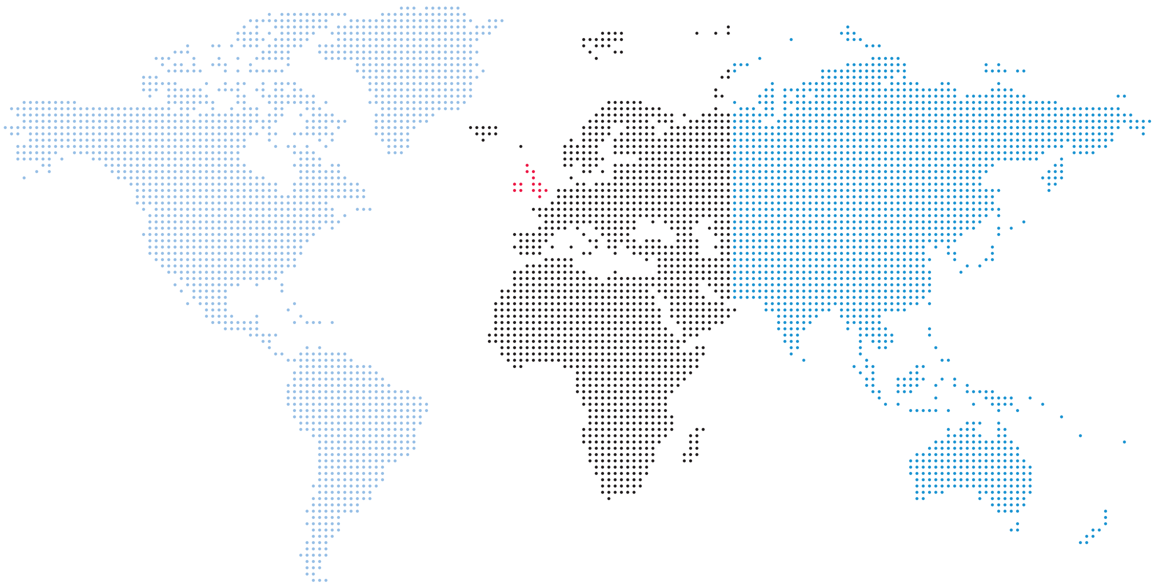
EV charging stations must be robust enough to work in any weather, all year round, and provide an easy to use, customer friendly interface. Circontrol's e-mobility division manufactures a wide range of EV charging stations and, when evaluating options for its third-generation DC Raption 50 quick chargers, it approached touchscreen specialist Iberhermes.

In partnership with Iberhermes, Zytronic designed a bespoke, printed touchscreen that incorporates UV and IR filters to aid thermal management of the charging terminal and to help protect the underlying display. To aid daylight readability of the display, Zytronic designed a custom printed anti-glare glass 8.5" ZYBRID® touch sensor, paired with a ZXY110 controller for its innovative EMI "noise" immunity technology and gestural functionality.

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

OUR MARKETS

Operating globally



We sell all over the world, with 90% of our products sold in the year being exports. To facilitate this, we have a strong network of VARs, local sales and technical personnel in key territories and UK-based key account managers to support our EMEA region.

Americas

14% reduction in revenues to the Americas in 2019 mainly as a result of fewer sales into the financial market in that territory.

Total revenue from invoiced sales to the Americas was

£3.7m

(2018: £4.3m)

which represented 21% of total export revenue (2018: 22%).

UK

Sales to a large UK-based gaming customer reduced over the year as the project nears its natural completion.

Total revenue from invoiced sales to UK customers was

£2.1m

(2018: £2.8m)

The year-on-year decline was attributable to a large gaming project reaching the mature stage of its life cycle.

EMEA

Our biggest market over 2019 with revenues exceeding last year by 16%, due to a new project with a Spanish customer commencing and concluding in the year.

Total revenue from invoiced sales to the EMEA region was

£7.8m

(2018: £6.7m)

which represented 43% of total export revenue (2018: 35%).

APAC

Reduction in sales over the year due to lower volumes of sensors sold into the gaming market.

Total revenue from invoiced sales to the APAC region was

£6.5m

(2018: £8.5m)

which represented 36% of total export revenue (2018: 43%). The largest revenue generator was still from sales into the gaming market for ultra-large format MPCT™ products.

Competitive advantages stem from our technology

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

OUR KEY RESOURCES AND RELATIONSHIPS

Proprietary PCT™ technology

Patented MPCT™ technology

1
new patent applied for in 2018–2019

8
patents granted in total

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

Mechanical

Electronic

Software

Firmware

In-house facilities:

ISO-approved quality and environmental systems

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

OUR MANUFACTURING CAPABILITIES

Our products

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

Diverse product range

Since the turn of the century, Zytronic has concentrated on the development and marketing of its range of interactive touch sensor products based upon its unique projected capacitive technologies (PCT™ and MPCT™) to industrial, public access and self-service equipment designers and end-users, in market areas such as financial, 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 80,000 sq ft, which are all located on a single site in the UK.

Case study

Location:
Worldwide

Sector:
Gaming

Unique J-curved multi-touch technology

Aruze gaming Technologies wanted to create an unrivalled design for its flagship slot machine, the Muso Curve 43. It is designed around a vertical 43" (110 cm) touch screen curved asymmetrically into a 'J' shape, with a more pronounced curve at the bottom. In addition to the shape of the main display, 500 candelas of luminous intensity ensures that it has an eye-catching brightness.

Zytronic's patented and award-winning projected capacitive touch sensing technology (MPCT™) forms the primary interface between the Muso Curve 43 and the player. In addition to the company's experience and technology, Zytronic brought its ability to provide a completely customised design in an extremely short space of time. With minimal tooling costs and no restriction on quantities, its flexible approach to manufacturing enabled the Aruze product development team to bring the new slot machine to market incredibly quickly.

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

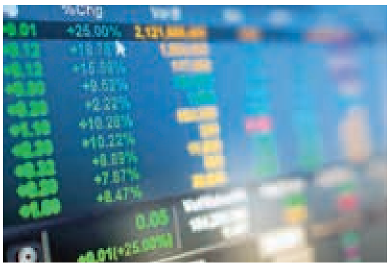
HOW WE ADD VALUE

Customers

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

Employees

With well over half a century of glass processing and laminating experience, and over 17 years of experience developing our touch controllers, our employees are experts in their fields.



Shareholders

We continue to deliver value for our shareholders and have returned considerable dividends over the years.

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.

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.

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 37 sales channel partnerships to sell our products around the world.

Targeting growth application areas to create value

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

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 2018/2019

- We analysed the production of mixed metal oxide glass sensors and have recently targeted some customers for sampling.
- We concluded our work within the H2020 Hi-Response consortium project which unfortunately did not reach a commercial outcome.
- We further developed our unique micro-fine filament system to provide micro-tracks to allow for power and data transfer from mechanical devices such as buttons and LED lighting features. These appear "floating" and "unconnected" within the touch active and display viewable area. We have applied for a patent on this work.

Our priorities for 2019/2020

- We are developing a unique interactive video wall solution with narrow border configuration and the ability to drag and drop multiple objects around the multiple sensors whilst maintaining continuous contact.
- We have engaged with a product designer to evaluate if a mixed metal oxide glass laminate solution can be used as a transparent surface power supply for bespoke lighting and table design opportunities.

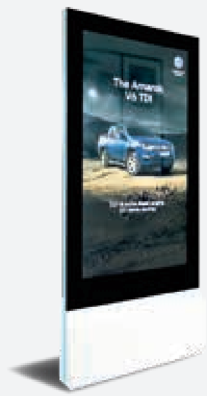
Link to KPIs

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

Case study



Location: Australia

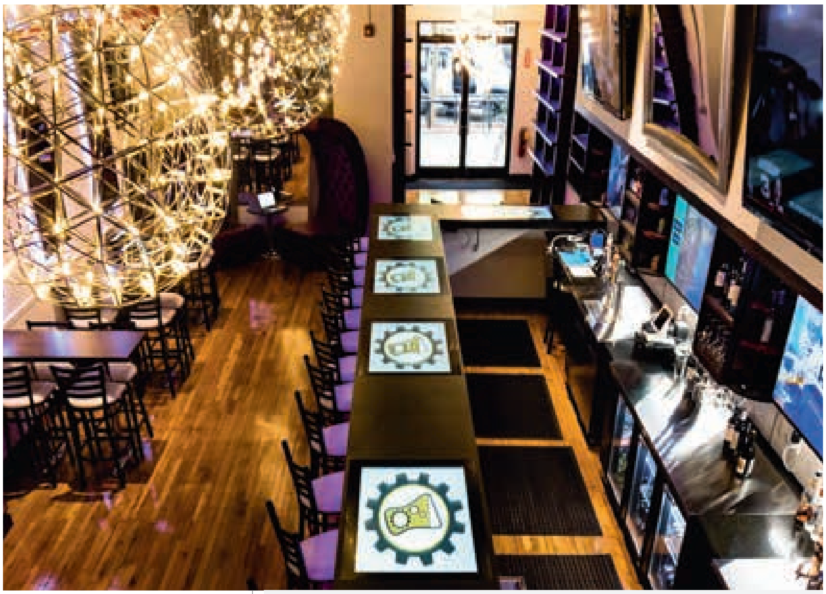
Sector: Signage

Ultra-slim Blade kiosk in Volkswagen showroom trials

Design to Production's Blade double-sided display unit with interactive touch technology has been selected by Volkswagen for a 20-unit pilot trial in showrooms around Australia.

The Blade features an incredibly small footprint and slim silhouette, at just 40mm thick, yet with a generous 55" double-sided HD multi-touch display. The high-performance capacitive touchscreens are powered by the latest ZXY500™ projected capacitive touch controller. With the proprietary ASIC coupled with custom touch-detection algorithms, the touch sensors can be mounted almost directly in contact with the display surface, reducing parallax and enabling the super-slim form factor.

Read more at **zytronic.co.uk/case-studies/detail/ultra-slim-blade-kiosk-volkswagen-showroom-trials/**



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 2018/2019

- We have grown our opportunities log over the year from 414 open opportunities at 30 September 2018 to 494 open opportunities at 30 September 2019.
- We have recruited two additional apprentices into the Group over the year.

Our priorities for 2019/2020

- We will continue to identify new channel partner representation in countries where we have less coverage.
- We will look to strengthen our R&D department by recruiting additional engineers with different skills and experience.

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

Case study

Location:
USA

Sector:
Signage

Gizmo Bar introduces new tech repair concept

Gizmo Bar offers an exciting glimpse into the future of personal tech repair by combining the function of a tech repair facility with the inviting comfort of a plush lounge.

The 3,000 sq ft space is outfitted with interactive technology powered by Zytronic ZYBRID® multi-touch sensors and the ZXY500 touch controllers, delivering the perfect mix of durability and interactive responsiveness.

Gizmo Bar patrons can take a seat at the bar while their repairs are underway and enjoy a diverse selection of local craft brews. The bar itself is comprised of interactive touchscreens which enable guests to browse the web and catch up on work while they wait. A total of six 50" uniquely designed multi-touch touchscreens span the length of the bar, making it possible for twelve or more people to utilise the screens' interactive capabilities simultaneously. For added convenience, patrons can use the touchscreens to order in food from local restaurants using popular dining delivery platforms such as UberEats, BiteSquad and Grubhub.

The most common repairs made at Gizmo Bar – such as phone and tablet screen replacement – can be done on site, usually within an hour. Staff are trained to repair not just phones and tablets, but drones as well.

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

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 2018/2019

- We invested in a new glass cutting table and profiling machine, the latter enabling us to offer additional product enhancements.
- We committed to developing our production employees by enabling training courses for a number of people, upskilling them to a level three diploma in management.

Our priorities for 2019/2020

- We will look to invest in a further bespoke laser soldering machine following the successful implementation of the first one, which has significantly improved scrap at the flexi-tail jointing stage of production.
- We are proposing a review of our websites to determine how we can strengthen our SEO rankings to attract further new customers.

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

Location: USA

Sector: Signage

Multi-touch technology delivers interactive creative experiences in new sensory room

A facility at Canopy Children's Solutions, Mississippi's most comprehensive provider of children's behavioural health, educational and social service solutions, wanted to bring multi-touch interactivity into a new sensory room at Canopy's Jackson, MS, facility. It serves a critical role at the facility and is instrumental in encouraging children to play freely as well as providing them with structured professional therapy.

When developing the Ucreate digital play panel, NunoErin, a Jackson, MS, based developer and manufacturer of wall-mounted and tabletop interactive solutions, opted for Zytronic's high-performance, multi-touch projected capacitive technology. It is now one of the favoured elements of the room, sought out by youngsters who want to draw or play games, either by themselves or together with others.

The Ucreate wall panel is built on a 40" (100cm) industrial-grade interactive display, with interactivity powered by a Zytronic custom, printed multi-touch sensor. NunoErin's Ucreate platform also includes a library of interactive games, painting and drawing apps, animated puzzles and open-ended collaborative experiences for creative social play, accessed through an attractive, engagingly designed touchscreen.

Read more at
zytronic.co.uk/case-studies/detail/multi-touch-technology-delivers-interactive-creative-experiences-in-new-sensory-room/

KEY PERFORMANCE INDICATORS

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.

Key:

- Innovate
- Grow
- Invest

Group revenue (£m) -10%

15	21.3
16	21.1
17	22.9
18	22.3
19	20.1

Link to strategy

Definition

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

Our performance

Timing issues from new customer product introduction have adversely impacted sales in the gaming market over the year.

Gross profit margin (%) -9%

15	41.9
16	42.8
17	41.1
18	37.0
19	33.7

Link to strategy

Definition

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

Our performance

The difference in mix of products sold has impacted margin over the year.

Administration expenses (£m) -5%

15	4.1
16	4.4
17	3.6
18	3.6
19	3.5

Link to strategy

Definition

The indirect costs incurred in running the Group.

Our performance

Year-on-year cost savings have arisen due to fewer legal fees as a result of the successful conclusion of the patent litigation.

Cash generated (£m) -43%

15	4.9
16	5.6
17	4.7
18	4.8
19	2.8

Link to strategy

Definition

Cashflow from operating activities adjusted for non-cash items.

Our performance

Lower profits and an increase in working capital has impacted cash generated from operations.

Order intake (£m) -13%

15	21.6
16	21.5
17	23.6
18	21.6
19	18.7

Link to strategy

Definition

Orders received during the financial year.

Our performance

Year-on-year decline driven by timing issues impacting the gaming market.

Recorded accidents +9%

15	28
16	10
17	19
18	11
19	12

Link to strategy

Definition

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

Our performance

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

Continually assessing risks

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

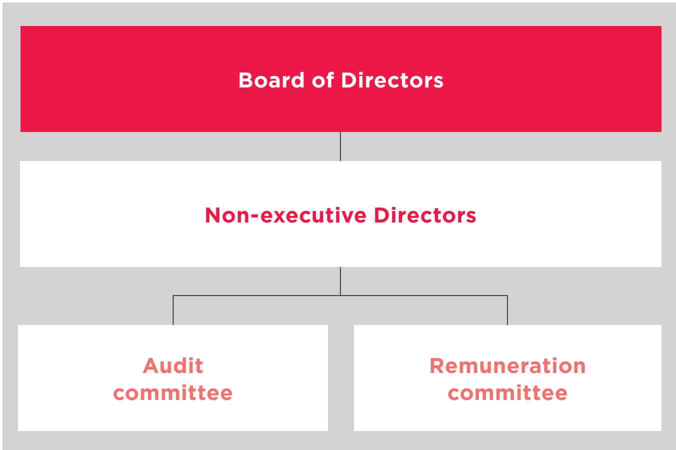
Managing our risks

The 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

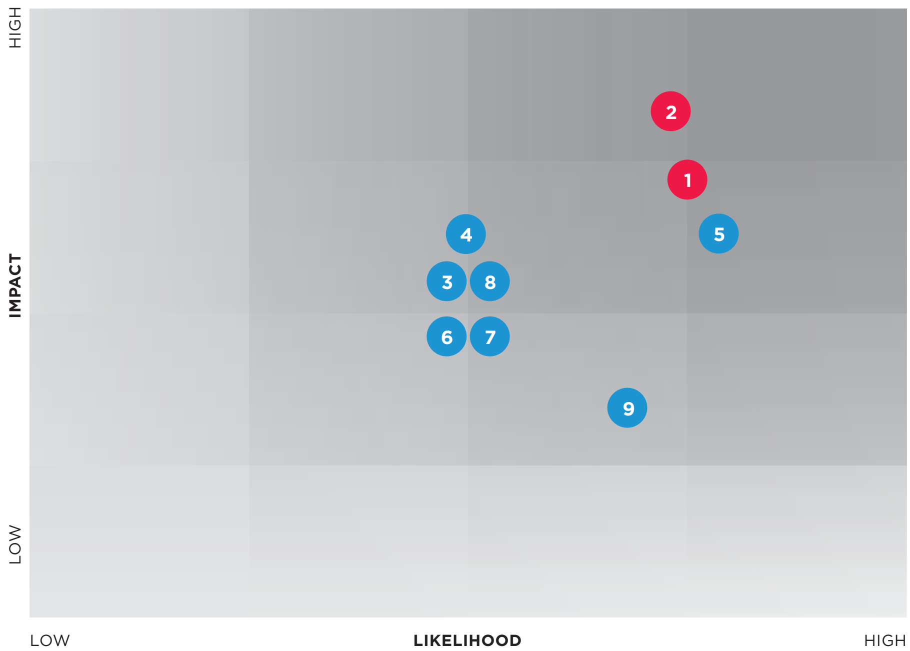
The responsibility for risk identification, analysis, evaluation and mitigation rests with the operational management team of the businesses and is regularly communicated to and reviewed by the Board.



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. Over the prior 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 also introduced. These provided industry leading narrow border considerations, which had been configured based on years of customer feedback and market desire. During the year the Group has been developing its own mixed metal oxide coating as a conductive medium solution to enable it to offer an alternative to its micro-fine filament sensing system, which will allow it to compete with other solution providers at a different price point.		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 49% 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. Zytronic's record of excellent customer service pre and post product sale is a big factor in maintaining the strong relationship that occurs with most of its customers. These factors help mitigate the risk of losing key customers 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. Another patent application has been initiated during the year and the Group has eight patents granted in total.		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 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.		No change to the risk but management continues to take appropriate action to minimise any potential threat.
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, 39% 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.		No change to the risk but management continues to keep abreast of any developments.
Fluctuating exchange rates which in turn could impact cashflows.	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.		The risk remains unchanged as the ongoing Brexit discussions continue.
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. The Group also regularly reviews customer’s credit arrangements to ensure they are reflective of the business needs.		Management does not consider a change to this risk and continues to monitor as appropriate.

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 and have regular external audits to support this.

Training

Employee training and development is one of the key factors to our success. Comprehensive training programmes allow us to advance workplace safety, productivity and satisfaction, as well as creating an informed and inspired workforce which can contribute to the advancement of our touch technology. We regularly review this across all departments to ensure that we continue to meet the needs of the Group and also to assist in succession planning. Over the year, training commenced for some production personnel to obtain a Level three Diploma in Management.

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. During the year, the Board of Directors of ZDL undertook training and obtained certification in IOSH Safety for Executives and Directors.

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 longer term skills gap and encourage more apprentices to join the Group.

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.

Employee engagement

We strive to create the right conditions for all members of our organisation to give their best, be committed to our goals and values, and be motivated to contribute to the organisational success, with an enhanced sense of wellbeing. We ensure we communicate with our employees on a regular basis and we consider their feedback and knowledge when making changes to our processes. We have a good mix of long serving employees and newer recruits which brings a good perspective when it comes to business development. When recruiting new or replacement personnel we ensure we enhance upon the skills and expertise already in place.

Customer engagement

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

Supplier engagement

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

Zytronic apprenticeship scheme

Zytronic is engaged with a local apprenticeship training scheme TDR Training, an approved training provider based in North East England which provides apprenticeships in Engineering and Manufacturing at Level 3, amongst other apprenticeships.

Zytronic currently employs three apprentices to serve as a multi-skilled Maintenance Technician, a Production Technician and a Quality Technician, all of which are at different stages in their training. Previously, there were two other apprentices, both of whom have successfully completed their training and are now full-time employees within the Group.

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

The Group remains debt free

The Group remains debt free and had cash and cash equivalents of £13.1m at 30 September 2019 (2018: £14.6m).

Group revenue

Total Group revenue for the year decreased by £2.2m to £20.1m (2018: £22.3m), due to a reduction in revenues from both the touch and traditional non-touch elements of the business. The Operational review explains in detail the reasons for this, with the performance in the gaming market, where a long running project is coming to the end of its life and the new projects in the pipeline not commencing in sufficient time to compensate, affecting margin.

Gross margin

The reported gross margin for the year ended 30 September 2019 was 33.7% (2018: 37.0%). The reduction is a result of the change in the mix of sensors sold over the year with 4,000 less units of the larger format sensors being invoiced compared to that in 2018 and thereby adversely impacting margin.

Group trading profit

With reduced levels of revenue and the gross margin reduction noted above, Group trading profit decreased to £3.0m (2018: £4.1m). However, distribution costs show a year-on-year saving of £0.1m due to the lower volume of sales into the gaming market, in which the Group was responsible for the costs of carriage. Administration costs also show a year-on-year saving of £0.2m due to lower professional fees incurred (£0.4m saving), which impacted the previous year due to the litigation claim being successfully defended. Some of this saving was offset in increased salary and other overseas support costs. Net finance income also increased over 2019 giving profit before tax of £3.1m (2018: £4.2m).

Tax

The Group continues to benefit from the many reliefs available to it and the reported tax charge of £0.4m represents an effective tax rate of 12.0% for the year, compared to the £0.5m and 13.0% recorded in the prior year. In the year, the Group claimed relief under the Patent Box regime and utilised the R&D tax credits allowance, which has been beneficial in lowering the effective rate of tax payable.

Earnings per share

The issued share capital of 16,044,041 ordinary shares of 1.0p has remained constant over the year and the associated EPS recorded is 16.8p, which is lower than that reported for last year (2018: 22.7p) by 26%. The recorded decline arises wholly due to lower profits over 2019.

Dividend

During the year the Group paid a final dividend for 2018 of 15.2p per share and a 2019 interim dividend of 7.6p per share totalling £3.7m of cash (2018: £3.7m). The Directors have assessed the position of the Group's cash balances and reserves and are recommending the payment of a final dividend of 15.2p per share for the year ended 30 September 2019 giving a total dividend for the year of 22.8p per share (2018: 22.8p). Subject to approval by shareholders, the dividend will be paid on Friday 7 February 2020 to shareholders on the register as at the close of business on Friday 10 January 2020. Although the dividend is uncovered this year, the Directors think it is an appropriate consideration, whilst the ongoing review of the Group's operations, cash balances, reserves, future trading and dividend policy position is undertaken.

Capital expenditure

Spend on capital expenditure over the year totalled £0.6m (2018: £0.7m) and was weighted considerably to tangible assets at £0.5m (2018: £0.3m). Items added in the year included a new glass storage racking system, a new glass cutting table and a replacement glass profiling machine which in combination cost £0.3m, the latter giving the benefit of additional functionality to enhance product offerings. Further small items of equipment were also added as necessary, to either replace dilapidated equipment, improve process efficiencies or on the grounds of health and safety improvements. Intangible spend was lower than in previous years at £0.1m (2018: £0.4m) with more of the cost being expensed through the statement of comprehensive income. Depreciation and amortisation for the year was similar to last year at £1.2m (2018: £1.1m).

Cash and debt

The Group continues to turn profit into cash despite the increase in working capital over last year which arose due to several reasons. Inventory levels remained constant year on year, but the Group saw an increase in debtors of £0.4m at the end of September due to accepting a one-off different payment request from one of its customers for a large project. This debt has now been settled in full. Creditors decreased over the year due to a reduction in accruals required and trade balances being settled. Net cashflow used in investing and financing activities remained the same as the previous year at £0.6m and £3.7m respectively. The Group continues to assess its level of cash holdings and will continue its policy to invest in internal R&D and capital refurbishments to drive growth and to pay a return to its shareholders.

The Group maintains an overdraft facility, which is available for use in any of its three currencies. The Group also has an FX policy in place whereby it is hedged in both US Dollars and Euros for a period of four months ahead to correspond with its working capital policies and currency requirements.

The Group remains debt free and had cash and cash equivalents of £13.1m at 30 September 2019 (2018: £14.6m).

Claire Smith
Group Finance Director
9 December 2019

Case study

Location:
Hong Kong

Sector:
Signage

Interactive touch technology helps patients take control of health and wellbeing

LifeHub's interactive touchscreen required some advanced technology, with a large screen to allow patients to make selections by simply touching the screen but, when not in use, the screen acts as a large impressive mirror – rather than "just" a blank screen.

With its experience, technology and flexibility regarding low-volume custom solutions, Zytronic was the natural provider of choice. In fact, Zytronic was probably the only choice as few companies were able to handle the size and no other company would consider a custom production for just two units.

The solution was a 55" multi-touch screen that mounts on the wall in LifeHub's reception area, with a second unit elsewhere in the practice. A 700cd/m^2 high brightness LCD display panel was mounted behind the mirrored surface; the specially mirrored glass becomes reflective when the display is unpowered or showing a dark screen, but still allows enough light to transmit through when content is displayed.

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

About our leadership team

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

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.

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 on 21 January 2008 was promoted to Chief Executive.

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 held a number of Non-executive Director positions. Until earlier this year David was a Director of William Leech (Investments Ltd), where he additionally sat on the investment committee and served as a trustee of the William Leech Foundation. He was also a Non-executive Director of Newcastle Building Society and sat on the Society's board risk committee, which he chaired for eight years until 2018. He has corporate governance experience in his roles as the Society's Senior Independent Director and Deputy Chairman. He also has remuneration and nominations committee experience, sitting on both of these for the Society. 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.

Board composition

Executive	2
Non-executive	2

Board meetings

Attendance
100%

Key:

- Ⓐ 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.

Achieving high standards of corporate governance

As an AIM-listed company, and in line with the London Stock Exchange's changes to the AIM rules requiring all AIM-listed companies to adopt and comply with a recognised corporate governance code, the Board has adopted the Quoted Companies Alliance ("QCA") Corporate Governance Code.

Tudor Davies
Chairman

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.

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

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; and ▶ ensuring that good information flows within the Board and its committees, and between senior management and the Non-executive Director, as well as facilitating induction processes and assisting with professional development as required.

The workings of the Board and its committees continued

The Board continued

The 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.

Audit committee

The Audit committee report and information is disclosed on page 30.

Remuneration committee

The Remuneration report and information is disclosed on pages 31 and 32.

Board effectiveness

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 Group. The Group is mindful of succession planning and has discussions on this matter. The Board feels it has a good balance of skills and expertise; however, all members are regularly challenged and assessed at the Board meetings.

Relations with shareholders

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

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

Following the half-year and year-end presentations of results, the Executive Directors report to the Board on the feedback received from journalists, analysts and shareholders. In addition, the Group's Nomad produces a feedback report from those meetings which is made available to all Directors. The Executive Directors also report to the Board on any meetings with shareholders or institutional investors that may take place at other times of the year.

The Board uses both the annual report and financial statements and the Annual General Meeting to communicate directly with private and institutional investors and welcomes their participation. 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 4 February 2020 can be found in the Notice of Annual General Meeting on pages 67 and 68.

In addition, the Independent Non-executive Director is available to shareholders if they have any concerns which contact through the normal channels of the 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 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 19 to the financial statements includes the Group's objectives and policies of its financial risk management and details of its financial instruments and hedging activities and its exposure to credit risk and liquidity risk.

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

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

The audit committee comprises the Non-executive Director, David Buffham (Chairman) and Tudor Davies, the Non-executive Chairman. 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 twice a year, once to review the audit planning document and once 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 meetings to the Executive Directors, once the reviews of the annual audit process have been concluded. Any issues arising from these papers can be communicated to the Group's auditor either by the audit committee Chairman or the Group Finance Director.

Audit committee meetings

Number of meetings in 2019

2

Attendance

100%

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

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

Risk of fraud in revenue recognition and cut-off

Under ISA (UK 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 IFRS 15 and that there are no cut-off errors or indicators of fraudulent reporting.

Capitalisation of development expenditure

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

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

Response to key audit matters

The committee considers that 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 19 years; in accordance with professional guidelines, the engagement partner is rotated after five years at most and the current partner is in their first year of the engagement. In assessing the auditor's effectiveness, the committee:

- challenged the work undertaken by the auditor to test management's assumptions and estimates in the key risk areas;
- reviewed reports received from the auditor on these and other matters;
- 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 2019 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, David Buffham, as its Chairman, and the Group's Chairman, Tudor Davies. In determining remuneration for the year, the committee has given full consideration to the requirements of the UK Corporate Governance Code.

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

Remuneration policy

The remuneration of Executive Directors is determined by the committee and the remuneration of the 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 32.

Annual bonus

In 2019, 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 2019 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.

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 2019 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	2019 £'000	2018 £'000
Mark Cambridge	12	12
Claire Smith	8	8
Total	20	20

Remuneration committee meetings

Number of meetings in 2019

1

Attendance

100%

Directors' shareholdings (audited)

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

	30 September 2019		30 September 2018	
	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 2019.

Directors' emoluments for the year ended 30 September 2019 (audited)

	Salary £'000	Fees £'000	Benefits £'000	Total emoluments* 2019 £'000	Total emoluments* 2018 £'000
Non-executive Chairman					
Tudor Davies	—	81	—	**81**	78
Executive					
Mark Cambridge	155	—	2	**157**	152
Claire Smith	94	—	1	**95**	97
Non-executive					
Sir David Chapman, Bt.**	—	—	—	**—**	46
David Buffham	—	36	—	**36**	31
	249	117	3	**369**	404

* Excluding pension contributions.

** Sir David Chapman, Bt. retired from the Board on 21 September 2018.

Share price during the year

During the year to 30 September 2019, the highest share price was 447.5p and the lowest share price was 197.5p. The market price of the shares at 30 September 2019 was 215.0p.

Directors' interests in material contracts

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

DIRECTORS' REPORT

The Directors present their annual report and financial statements for the year ended 30 September 2019.

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 2019/20 are disclosed in the Strategic report on pages 14 to 16.

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 90% 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. The employment of Taiwanese and Japanese nationals in the APAC region has also increased the Group's presence in that region. Management continues to look for and engage with suitable appointees to expand the Group's network 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 discussing the cashflows which occurred in the year ended 30 September 2019 and the overall net funds position.

No changes were made to these objectives, policies or processes during the years ended 30 September 2018 and 2019.

Research and development

Over the course of the year the Group has been active in a number of projects, the main one being related to the use of its unique micro-fine filament system which not only provides its unique touch sensing capability, but to also provide invisible micro-tracks to allow for power and data transfer from mechanical devices such as buttons, and LED lighting features which appear unconnected and floating within the touch active and display viewable area.

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 40. The Group profit after tax amounted to £2.7m (2018: £3.6m). The Directors propose the payment of a final dividend of 15.2p per share (2018: 15.2p). Following the dividend of 7.6p per share paid in July 2019, this will bring the total dividend for the year to 22.8p per share (2018: 22.8p).

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 4 February 2020 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
9 December 2019

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 2019 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 2019	Statement of financial position as at 30 September 2019
Consolidated statement of comprehensive income for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 9 to the financial statements including a summary of significant accounting policies
Consolidated statement of cashflows for the year then ended	
Related notes 1 to 24 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	▶ Inappropriate measurement and recognition of revenue ▶ Inappropriate capitalisation of development costs
Audit scope	▶ We performed an audit of the complete financial information of Zytronic plc and Zytronic Displays Limited and audit procedures on specific balances for Zytronic Inc. ▶ Zytronic Displays Limited and Zytronic Inc. contributed 98% (2018: 98%) of the Group's profit before tax, 100% (2018: 100%) of the Group's revenue and 99% (2018: 99%) of the Group's total assets
Materiality	▶ Overall Group materiality of £153,000 (2018: £225,000) which represents 5% (2018: 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
Inappropriate measurement and recognition of revenue **(Revenue – 2019: £20.1m; 2018: £22.3m)** **Refer to the Audit committee report (page 30); accounting policies (page 48); and note 2 of the consolidated financial statements (page 49)** Revenue can only be recognised at the point where Zytronic has fulfilled all of its obligations and has therefore earned the right to consideration. 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 2019, which have different points when the performance obligation has been satisfied with the customer. There is opportunity through management override or error to overstate revenue by recognising revenue ahead of fulfilment of performance obligations 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 process and assessed the design effectiveness of key controls. We have gained an understanding of trading terms and conditions with key customers, in accordance with the requirements of IFRS 15. We have tested the application of these terms through our sample testing. We have performed analytical procedures on significant revenue accounts, by understanding movements in revenue balances for the year compared to the prior year and obtained explanations from management where there are significant variances. In addition, we reviewed revenue by customer to activity in the prior year to understand revenue trends and movements. We tested revenue using data analytic techniques focusing our detailed testing on unexpected trends and outliers. We confirmed our understanding of the revenue transaction flow, by testing a sample of 25 transactions, which were agreed to invoice and cash recovery. Where there were differences, these were explained as exchange rate differences, which we verified 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. In addition, we extended the cut-off procedures, by testing key items selected (covering August and September 2019 invoices) in the trade receivables cash after date testing to dispatch records and for vendor/supplier managed inventory, third party documentation, and agreed that revenue has been recognised ahead of year end.	Based on the procedures performed, we did not identify any evidence of material misstatement in the revenue recognised in the year ended 30 September 2019. We conclude that revenue has been recognised in accordance with the requirements of IFRS 15.

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the audit committee
Inappropriate capitalisation of development costs **(NBV of development expenditure – 2019: £0.8m, 2018: £1.1m)** **(Capitalised in year – 2019: £0.1m, 2018: £0.3m)** **Refer to the Audit committee report (page 30); accounting policies (page 47); and note 9 of the consolidated financial statements (page 52)** Zytronic capitalises development expenditure on ongoing and new projects in the year. The costs include 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 statement of comprehensive income, resulting in overstatement of profit and the amounts capitalised within the statement of financial position.	We have assessed the appropriateness of development cost capitalisation during our audit to assess whether costs are being capitalised in accordance with IAS 38 Intangible Assets. Development costs capitalised in the year amount to £130,000, predominantly relating to internal salary costs. 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 assess whether 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.	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

In the prior year, our Auditor's report included a key audit matter in relation to risk of management override of controls in relation to expense accruals and provisions. In the current year, we have refined the risk of management override to manual adjustments to revenue, as stated above. We consider the accruals and provisions within Zytronic to be largely routine and non-judgemental, and the risk of management override is considered to be low.

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. Zytronic Displays Limited is a full scope component; audit procedures were performed on these directly by the Group audit team. Zytronic Inc. is review scope.

For the current year, Zytronic Displays Limited and Zytronic Inc. contributed 98% (2018: 98%) of the Group's profit before tax, 100% (2018: 100%) of the Group's revenue and 99% (2018: 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 £115,000, which is lower than the statutory materiality. We have performed review scope procedures on Zytronic Inc., in accordance with an assigned performance materiality of £11,000.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team.

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

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 £153,000 (2018: £225,000), which is 5% (2018: 5%) of profit before tax. We believe that profit before tax provides us with the most relevant performance measure, consistent with that to the stakeholders of the Group.

We determined materiality for the Parent Company to be £501,000 (2018: £483,000), which is 2% (2018: 2%) of equity.

During the course of our audit, we reassessed initial materiality and changed the final materiality from original assessment at planning, to reflect lower profitability for the year.

Performance materiality

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% (2018: 75%) of our planning materiality, namely £115,000 (2018: £168,000). 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 component locations 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 £115,000 (2018: £168,000) 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 £11,000 (2018: £16,000) due to the limited transactions within this Company.

Reporting threshold

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 £7,650 (2018: £11,000), 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. 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 the 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 33 and 34, 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 https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's report.

Use of our report

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

Mark Morritt
(Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
Newcastle upon Tyne
9 December 2019

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 2019

	Notes	**2019 £'000**	2018 £'000
Group revenue	2	**20,104**	22,288
Cost of sales		**(13,311)**	(14,047)
Gross profit		**6,793**	8,241
Distribution costs		**(350)**	(461)
Administration expenses		**(3,462)**	(3,639)
Group trading profit	3	**2,981**	4,141
Finance costs	5(a)	**—**	(21)
Finance revenue	5(b)	**76**	68
Profit before tax		**3,057**	4,188
Tax expense	6	**(366)**	(541)
Profit for the year		**2,691**	3,647
Other comprehensive income		**—**	—
Total comprehensive income		**2,691**	3,647
Earnings per share			
Basic	8	**16.8p**	22.7p
Diluted	8	**16.8p**	22.7p

All activities are from continuing operations.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
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 1 October 2018	160	8,994	17,611	26,765
Profit for the year	—	—	2,691	2,691
Dividends	—	—	(3,658)	(3,658)
At 30 September 2019	**160**	**8,994**	**16,644**	**25,798**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2019

	Notes	2019 £'000	2018 £'000
Assets			
Non-current assets			
Intangible assets	9	**1,299**	1,585
Property, plant and equipment	10	**6,385**	6,605
		7,684	8,190
Current assets			
Inventories	11	**3,034**	3,021
Trade and other receivables	12	**4,127**	3,738
Cash and short term deposits	13	**13,143**	14,626
		20,304	21,385
Total assets		**27,988**	29,575
Equity and liabilities			
Current liabilities			
Trade and other payables	14	**962**	1,446
Derivative financial liabilities	15	**21**	7
Accruals	14	**499**	767
Tax liabilities		**192**	13
		1,674	2,233
Non-current liabilities			
Government grants	16	**—**	15
Deferred tax liabilities (net)	18	**516**	562
		516	577
Total liabilities		**2,190**	2,810
Net assets		**25,798**	26,765
Capital and reserves			
Equity share capital	20	**160**	160
Share premium	20	**8,994**	8,994
Retained earnings		**16,644**	17,611
Total equity		**25,798**	26,765

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

Mark Cambridge
Chief Executive
9 December 2019

Claire Smith
Group Finance Director

Zytronic Group plc: Registered number 03881244

CONSOLIDATED CASHFLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Notes	2019 £'000	2018 £'000
Operating activities			
Profit before tax		**3,057**	4,188
Net finance income		**(76)**	(47)
Depreciation and impairment of property, plant and equipment		**726**	709
Amortisation, impairment and write-off of intangible assets		**430**	438
Amortisation of government grant		**(15)**	(10)
Fair value movement on foreign exchange forward contracts		**14**	61
Working capital adjustments			
Increase in inventories		**(13)**	(25)
Increase in trade and other receivables		**(389)**	(232)
(Decrease)/increase in trade and other payables and provisions		**(742)**	295
Cash generated from operations		**2,992**	5,377
Tax paid		**(238)**	(573)
Net cashflow from operating activities		**2,754**	4,804
Investing activities			
Interest received		**71**	65
Payments to acquire property, plant and equipment		**(506)**	(273)
Payments to acquire intangible assets		**(144)**	(390)
Net cashflow used in investing activities		**(579)**	(598)
Financing activities			
Interest paid		**—**	(21)
Dividends paid to equity shareholders of the Parent		**(3,658)**	(3,658)
Net cashflow used in financing activities		**(3,658)**	(3,679)
(Decrease)/increase in cash and cash equivalents		**(1,483)**	527
Cash and cash equivalents at the beginning of the year	13	**14,626**	14,099
Cash and cash equivalents at the year end	13	**13,143**	14,626

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 2019 were authorised for issue by the Board of Directors on 9 December 2019 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) Adoption of new and revised standards

During the year the Group has applied the following accounting standards that are mandatorily effective for an accounting period that begins on or after 1 January 2018. The adoption of these standards has had no impact on the amounts reported in the financial statements. There was also no impact on the consolidated statement of other comprehensive income or the consolidated cashflow statement.

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRIC 22 Foreign Currency Transactions and Advanced Consideration
- Annual Improvements to IFRSs: 2014–2016 Cycle – IFRS 1 and IAS 28 Amendments

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 Financial Instruments which is mandatory for years commencing on or after 1 January 2018. The Group has confirmed that the new classification requirements have not had an impact on its accounting for financial assets and financial liabilities that are managed on a fair value basis. At the end of both reporting periods the Group only had a small financial liability recognised.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. This standard applies to annual reporting periods beginning on or after 1 January 2018 and has been endorsed by the EU. This standard replaces IAS 18 Revenue. The Group has adopted IFRS 15 in these financial statements. The scope of IFRS 15 includes all orders where the Group has agreed to provide goods or services to a customer, except for the following:

- financial instruments (IAS 39/IFRS 9); and
- leases (IAS 17).

IFRS 15 establishes principles for determining when and how revenue arising from contracts with customers should be recognised. Zytronic should recognise revenue when it transfers goods or services to a customer based on the amount of consideration to which it expects to be entitled from a customer in exchange for fulfilling its performance obligations.

During the year, the Group has undertaken a review of all income streams against the requirements of IFRS 15. Management has undertaken an assessment of all revenue streams across the business using the five-step approach specified by IFRS 15:

- identify the contract/order(s) with the customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract/order; and
- recognise revenue when (or as) a performance obligation is satisfied.

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

Sale of finished goods product

Sales of finished goods product to customers are recognised when control of the product has transferred to the third party. This is usually when title passes to the customer, either on shipment or on receipt of goods depending on the delivery terms of the customer order. The performance obligation is satisfied when control has passed to the customer. The transaction price is specified in confirmation of the customer order. This treatment has not changed following the adoption of IFRS 15.

Sale of vendor managed inventory

Zytronic supports two of its customers by holding inventory in third party locations near to the customer's production facility. Revenue is recognised when the goods have been moved out of the location by the customer and a purchase order has been provided or if a maximum stock holding period has arisen. The performance obligation is satisfied when control has passed to the customer or the stock holding period reached. There is an immaterial impact on revenue following the adoption of IFRS 15.

1. Accounting policies continued

(b) Adoption of new and revised standards continued

IFRS 15 Revenue from Contracts with Customers continued

Sale of vendor managed inventory continued

The management review of the IFRS 15 five-step approach concluded that there are no material contracts/orders which would require different treatment under IFRS 15 versus IAS 18 Revenue in the financial year.

IFRIC 22 Foreign Currency Transactions and Advanced Consideration

This amendment clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Group has noted the requirements of this new amendment and confirms that all foreign currency transactions or parts of transactions which are received in advance are recorded at the date of the transaction. For the purpose of determining the exchange rate, this is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. Where there are a number of payments or receipts in advance, the date of transaction will be established for each payment or receipt.

(c) New standards issued but not yet effective

IFRS 16 Leases

IFRS 16 Leases has an effective date for annual periods beginning on or after 1 January 2019. The standard replaces IAS 17 and establishes principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. Lessees will recognise a right-of-use asset and a corresponding financial liability on the statement of financial position. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17. This will result in a change in the costs in the statement of comprehensive income over the life of the lease as depreciation and interest charges will replace the lease costs currently charged. The depreciation will be charged on a straight-line basis; however, interest is charged on the outstanding lease liabilities and will therefore be higher in the earlier years and decrease over time.

The Group will adopt the modified approach to transition where the initial asset values will be equal to the present value of the future lease payments as at the date of transition. This will result in all existing operating leases being capitalised over their remaining lives, should they fall into scope, as if they had just been entered into, and the Group accounts will reflect an elevated interest charge following adoption. The cumulative effect of initially applying it is recognised as an adjustment to the opening balance of retained earnings and comparatives are not restated.

The implementation is not expected to materially impact the Group accounts as at 1 October 2019. The Group is to apply practical expedients available for low value and short-life assets on transition to IFRS 16.

The Group does, however, have an intercompany lease between the Parent Company and the trading subsidiary. This is eliminated upon consolidation in the Group accounts.

(d) Judgements and key sources of estimation uncertainty

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

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

Development costs

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

(e) Key sources of estimation uncertainty

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

(f) Basis of consolidation and goodwill

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

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

1. Accounting policies continued

(f) Basis of consolidation and goodwill continued

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.

(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 19.

(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	–	40 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.

(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.

1. Accounting policies continued

(i) Intangible assets continued

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 three to ten years.

(k) Inventories

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

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

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

(l) Financial instruments

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

(m) Trade and other receivables

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

(n) Cash and cash equivalents

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

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

Fair value measurement of financial instruments

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

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

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

Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

1. Accounting policies continued

(o) 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.

(p) 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.

(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.

(r) Revenue recognition

Revenue from the sale of goods under IAS 18 is recognised when the transfer of control of the goods has 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.

The adoption of IFRS 15 has been documented with section 1b.

(s) 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.

(t) Leases

Rentals paid under operating leases are charged to the statement of comprehensive income on a straight line basis over the period of the lease. Operating lease income is credited to the statement of comprehensive income on a straight line basis over the duration of the related contracts.

(u) Tax

Current tax

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

Deferred tax

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

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

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

2. 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 2019		30 September 2018	
	Touch £'000	**Non-touch £'000**	Touch £'000	Non-touch £'000
Sale of goods – Americas (excluding USA)	**300**	**23**	541	39
– USA	**3,152**	**257**	3,449	302
– EMEA (excluding UK and Hungary)	**5,735**	**223**	4,224	396
– Hungary	**1,718**	**172**	1,602	473
– UK	**1,609**	**455**	2,119	667
– APAC (excluding South Korea)	**1,883**	**174**	2,652	239
– South Korea	**4,327**	**76**	5,531	54
	18,724	**1,380**	20,118	2,170
Total revenue	**20,104**		22,288	

Individual revenues from three major customers exceeded 10% of total revenue for the year. The total amount of revenue was £9.7m (2018: £10.8m).

The individual revenues from each of these three customers were: £3.8m (2018: £5.0m); £2.4m (2018: £3.0m); and £3.5m (2018: £2.8m).

3. Group trading profit

This is stated after charging/(crediting):

	30 September 2019 £'000	30 September 2018 £'000
R&D costs	**454**	359
Amortisation and impairment of development expenditure	**385**	348
	839	707
Auditor's remuneration – in respect of audit services*	**69**	63
– in respect of taxation compliance services	**1**	1
– in respect of taxation advisory services	**8**	10
Depreciation of owned assets	**726**	709
Amortisation of software	**6**	17
Amortisation, impairment and write-off of licences	**26**	73
Cost of inventories recognised as an expense including:	**7,037**	7,835
– the net movement in the stock provision	**64**	13
Operating lease rentals – minimum lease payments	**17**	17
Amortisation of capital grants	**(15)**	(10)
Net foreign currency contract differences	**15**	36
Net foreign currency revaluation differences	**—**	(79)

* £14,000 of this relates to the Company (2018: £13,000).

4. Staff costs and Directors' emoluments

	30 September 2019 £'000	30 September 2018 £'000
Wages and salaries	**5,348**	5,408
Social security costs	**476**	493
Other pension costs	**191**	174
	6,015	6,075

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

The total of Directors' emoluments is £369,000 (2018: £404,000). The aggregate value of contributions paid to money purchase pension schemes includes £20,000 (2018: £20,000) in respect of two Directors (2018: two).

Amounts paid to the highest paid Director are £157,000 (2018: £152,000) plus a contribution paid to the money purchase pension scheme of £12,000 (2018: £12,000).

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

	30 September 2019 Number	30 September 2018 Number
Production	**143**	149
Administration and sales	**43**	46
	186	195

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 2019 £'000**	30 September 2018 £'000
Bank overdrafts	**—**	21

(b) Finance revenue

Interest receivable	**30 September 2019 £'000**	30 September 2018 £'000
Bank interest receivable	**76**	68

6. Tax

	30 September 2019 £'000	30 September 2018 £'000
Current tax		
UK corporation tax	**420**	621
Tax due on foreign subsidiary	**2**	—
Corporation tax over-provided in prior years	**(10)**	(35)
Total current tax charge	**412**	586
Deferred tax		
Origination and reversal of temporary differences	**(46)**	(45)
Total deferred tax credit*	**(46)**	(45)
Tax charge in the statement of comprehensive income	**366**	541

* Note 18.

6. Tax continued

Reconciliation of the total tax charge

The effective tax rate of the tax expense in the statement of comprehensive income for the year is 12% (2018: 13.0%) compared with the average rate of corporation tax in the UK of 19% (2018: 19%). The differences are reconciled below:

	30 September 2019 £'000	30 September 2018 £'000
Accounting profit before tax	**3,057**	4,188
Accounting profit multiplied by the average UK rate of corporation tax of 19% (2018: 19%)	**581**	796
Effects of:		
Expenses not deductible for tax purposes	**1**	8
Depreciation in respect of non-qualifying items	**22**	24
Enhanced tax reliefs – R&D	**(147)**	(169)
Enhanced tax reliefs – Patent Box	**(70)**	(79)
Effect of deferred tax rate reduction and difference in tax rates	**(13)**	(4)
Tax over-provided in prior years	**(10)**	(35)
Tax due on foreign subsidiary	**2**	—
Total tax expense reported in the statement of comprehensive income	**366**	541

Factors that may affect future tax charges

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

There are no tax losses to carry forward at 30 September 2019 (2018: £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 2018 accounting periods, and the 2019 benefit has been estimated.

7. Dividends

The Directors propose the payment of a final dividend of 15.2p per share (2018: 15.2p), payable on 7 February 2020 to shareholders on the Register of Members on 10 January 2020. This dividend has not been accrued in these financial statements. The dividend payment will amount to some £2.4m.

	30 September 2019 £'000	30 September 2018 £'000
Ordinary dividends on equity shares		
Final dividend of 15.2p per ordinary share paid on 9 March 2018	**—**	2,439
Interim dividend of 7.6p per ordinary share paid on 20 July 2018	**—**	1,219
Final dividend of 15.2p per ordinary share paid on 22 February 2019	**2,439**	—
Interim dividend of 7.6p per ordinary share paid on 19 July 2019	**1,219**	—
	3,658	3,658

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 2019 £'000	**Weighted average number of shares 30 September 2019 Thousands**	**EPS 30 September 2019 Pence**	Earnings 30 September 2018 £'000	Weighted average number of shares 30 September 2018 Thousands	EPS 30 September 2018 Pence
Profit on ordinary activities after tax	**2,691**	**16,044**	**16.8**	3,647	16,044	22.7
Basic EPS	**2,691**	**16,044**	**16.8**	3,647	16,044	22.7

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 2019 £'000	**Weighted average number of shares 30 September 2019 Thousands**	**EPS 30 September 2019 Pence**	Earnings 30 September 2018 £'000	Weighted average number of shares 30 September 2018 Thousands	EPS 30 September 2018 Pence
Profit on ordinary activities after tax	**2,691**	**16,044**	**16.8**	3,647	16,044	22.7
Weighted average number of shares under option	**—**	**—**	**—**	—	—	—
Diluted EPS	**2,691**	**16,044**	**16.8**	3,647	16,044	22.7

9. Intangible assets

	Software £'000	Goodwill £'000	Patents and licences £'000	Development expenditure £'000	Total £'000
Cost					
At 1 October 2017	598	235	2,032	3,327	6,192
Additions	—	—	77	313	390
Disposals	—	—	(91)	—	(91)
At 1 October 2018	598	235	2,018	3,640	6,491
Additions	—	—	15	130	145
Disposals	—	—	(27)	—	(27)
At 30 September 2019	**598**	**235**	**2,006**	**3,770**	**6,609**
Amortisation and impairment					
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 1 October 2018	592	—	1,787	2,527	4,906
Provided during the year	6	—	26	385	417
Disposals during the year	—	—	(13)	—	(13)
At 30 September 2019	**598**	**—**	**1,800**	**2,912**	**5,310**
Net book value at 30 September 2019	**—**	**235**	**206**	**858**	**1,299**
Net book value at 1 October 2018	6	235	231	1,113	1,585
Net book value at 1 October 2017	23	235	227	1,148	1,633

Included within cost is £0.5m (2018: £0.5m) relating to capitalised development costs which have been fully amortised but continue to be utilised in the business.

9. Intangible assets continued

Impairment of goodwill

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

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

The recoverable amount of goodwill has been determined based on a value-in-use calculation for the cash-generating unit, using cashflow projections based on financial budgets and forecasts approved by senior management covering a 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 pre-tax discount rate of 6%, derived from the Group's weighted average cost of capital.

The calculation of value in use is most sensitive to the forecast operating cashflows, the discount rate and the growth rate of 3% 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 2017	207	3,070	2,463	10,427	16,167
Additions	—	—	—	287	287
Disposals	—	—	—	(111)	(111)
At 1 October 2018	207	3,070	2,463	10,603	16,343
Additions	—	—	—	513	513
Disposals	—	—	—	(2,310)	(2,310)
At 30 September 2019	**207**	**3,070**	**2,463**	**8,806**	**14,546**
Depreciation and impairment					
At 1 October 2017	—	584	613	7,940	9,137
Provided during the year	—	61	82	566	709
Disposals	—	—	—	(108)	(108)
At 1 October 2018	—	645	695	8,398	9,738
Provided during the year	—	61	79	586	726
Disposals	—	—	—	(2,303)	(2,303)
At 30 September 2019	**—**	**706**	**774**	**6,681**	**8,161**
Net book value at 30 September 2019	**207**	**2,364**	**1,689**	**2,125**	**6,385**
Net book value at 1 October 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

11. Inventories

	30 September 2019 £'000	30 September 2018 £'000
Raw materials and consumables	**2,414**	2,026
Work in progress	**349**	427
Finished goods	**271**	568
	3,034	3,021

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 2019 £'000	30 September 2018 £'000
Trade receivables	**3,883**	3,420
VAT recoverable	**36**	109
Prepayments	**208**	209
	4,127	3,738

Trade receivables are denominated in the following currencies:

	30 September 2019 £'000	30 September 2018 £'000
Sterling	**1,360**	784
US Dollar	**1,861**	1,647
Euro	**662**	989
	3,883	3,420

Out of the carrying amount of trade receivables of £3.9m (2018: £3.4m), £2.3m (2018: £2.1m) is the amount of debts owed by four major customers (2018: three 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 2019, trade receivables at a nominal value of £Nil (2018: £1,000) were impaired due to poor payment history. Movements in the provision for impairment of trade receivables were as follows:

	£'000
At 1 October 2017	6
Utilised	(5)
At 1 October 2018	1
Utilised	(1)
At 30 September 2019	**—**

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

		Past due but not impaired		
	Neither past due nor impaired	<3 months £'000	>3 months £'000	Total £'000
2019	**2,599**	**1,270**	**14**	**3,883**
2018	2,941	464	15	3,420

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

13. Cash and short term deposits

	30 September 2019 £'000	30 September 2018 £'000
Cash at bank and in hand	**7,351**	8,580
Short term deposits	**5,792**	6,046
	13,143	14,626

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 2019, 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 July 2020.

The fair value of cash and cash equivalents is £13.1m (2018: £14.6m).

14. Trade and other payables

	30 September 2019 £'000	30 September 2018 £'000
Trade payables*	**861**	1,322
Other taxes and social security costs	**101**	124
	962	1,446
Accruals	**499**	767
	1,461	2,213

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

15. Financial liabilities

	30 September 2019 £'000	30 September 2018 £'000
Foreign exchange forward contracts	**21**	7
Total	**21**	7
Total current	**21**	7

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 2019, the Group has used a Level 2 valuation technique to determine the fair value of all forward exchange contracts and loans.

Derivative financial instruments

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

16. Government grants

	30 September 2019 £'000	30 September 2018 £'000
At 1 October	**15**	25
Released to the statement of comprehensive income	**(15)**	(10)
At 30 September	**—**	15
Non-current	**—**	15

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 and our involvement in this project has now concluded.

17. Obligations under leases

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

Group as lessee	30 September 2019 £'000	30 September 2018 £'000
Operating leases which expire:		
– not later than one year	**6**	6
– later than one year and not later than five years	**7**	13
	13	19

There are no non-cancellable property leases in place.

18. Deferred tax liability/(asset)

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

	30 September 2019 £'000	30 September 2018 £'000
Deferred tax liability		
Accelerated capital allowances	**362**	360
Capitalised R&D	**144**	193
Other	**12**	9
Fair value movement on currency contracts	**1**	3
	519	565
Deferred tax asset		
Pension asset	**(3)**	(3)
	(3)	(3)
Disclosed on the statement of financial position	**516**	562

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

	30 September 2019 £'000	30 September 2018 £'000
Deferred tax in the statement of comprehensive income		
Fair value movement on currency contracts	**2**	(6)
Accelerated capital allowances	**2**	(43)
R&D tax credits	**(49)**	(7)
Other	**(1)**	11
Deferred income tax credit	**(46)**	(45)

19. 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 July 2020 and is to provide funding for working capital.

Maturity profile of financial liabilities

Year ended 30 September 2019

	On demand £'000	<3 months £'000	3–12 months £'000	Total £'000
Trade and other payables	**884**	**476**	**—**	**1,360**
Foreign exchange forward contracts – outflows	**—**	**1,795**	**572**	**2,367**
Total	**884**	**2,271**	**572**	**3,727**

Year ended 30 September 2018

	On demand £'000	<3 months £'000	3–12 months £'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

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 2019 for a period of up to four months ahead in line with working capital requirements. Any additional surplus currency at the end of each month is dealt with at spot rates.

The Group entered into forward vanilla contracts during the year in both US Dollars and Euros. The US Dollar forward vanilla contracts are fixed over a series of five individual contracts over a period of four months at rates between $1.2768 and $1.2314 and are in place until January 2020. The Euro forward vanilla contracts are fixed over a series of four one-monthly contracts at rates between €1.1250 and €1.1087 and are also in place until January 2020.

19. Financial risk management policy and financial instruments continued

Foreign exchange risk continued

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
2019				
Sterling	**+10%**	**(139)**	**+10%**	**(63)**
	-10%	**170**	**-10%**	**77**
2018				
Sterling	+10%	(150)	+10%	(76)
	-10%	183	-10%	93

Capital management

The Group's policies on capital management are included in the Directors' report on page 33.

20. Share capital and share-based payments

(a) Share capital

	2019 Number Thousands	2018 Number Thousands	**2019 £'000**	2018 £'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 2018	8,994
At 30 September 2019	**8,994**

21. Capital commitments

Amounts contracted for at 30 September 2019 but not provided for in the financial statements amounted to £26,000 (2018: £238,000) for the Group.

22. Pension scheme commitments

Contributions for the year ended 30 September 2019 amounted to £191,000 (2018: £174,000) and the outstanding contributions at the statement of financial position date were £15,000 (2018: £15,000). 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.

23. 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:

	2019 £'000	2018 £'000
Salaries/fees	**419**	459
Pension contributions	**23**	23
	442	482

24. Guarantees

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

FIVE-YEAR SUMMARIES

Consolidated statement of comprehensive income

For the five years ended 30 September 2019

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Group revenue	**20,104**	22,288	22,892	21,087	21,267
Cost of sales	**(13,311)**	(14,047)	(13,481)	(12,071)	(12,366)
Gross profit	**6,793**	8,241	9,411	9,016	8,901
Distribution costs	**(350)**	(461)	(393)	(378)	(278)
Administration expenses	**(3,462)**	(3,639)	(3,591)	(4,365)	(4,073)
Group trading profit	**2,981**	4,141	5,427	4,273	4,550
Finance costs	**—**	(21)	(24)	(23)	(29)
Finance revenue	**76**	68	10	20	23
Profit before tax	**3,057**	4,188	5,413	4,270	4,544
Tax expense	**(366)**	(541)	(825)	(183)	(775)
Profit for the year	**2,691**	3,647	4,588	4,087	3,769
Other comprehensive income	**—**	—	—	—	—
Total comprehensive income	**2,691**	3,647	4,588	4,087	3,769
Earnings per share					
Basic	**16.8p**	22.7p	29.0p	26.6p	24.7p
Diluted	**16.8p**	22.7p	28.8p	26.1p	24.3p
Dividends per share	**22.8p**	22.8p	14.7p	12.3p	10.3p

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 2015 to 2019

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Assets					
Non-current assets					
Intangible assets	**1,299**	1,585	1,633	1,457	1,427
Property, plant and equipment	**6,385**	6,605	7,030	7,389	7,807
	7,684	8,190	8,663	8,846	9,234
Current assets					
Inventories	**3,034**	3,021	2,996	2,760	3,214
Trade and other receivables	**4,127**	3,738	3,506	3,745	3,055
Derivative financial assets	**—**	—	54	—	—
Cash and short term deposits	**13,143**	14,626	14,099	12,763	9,833
	20,304	21,385	20,655	19,268	16,102
Total assets	**27,988**	29,575	29,318	28,114	25,336
Equity and liabilities					
Current liabilities					
Trade and other payables	**962**	1,446	1,042	1,302	971
Financial liabilities	**—**	—	—	1,148	200
Derivative financial liabilities	**21**	7	—	959	89
Provisions	**—**	—	—	205	—
Accruals	**499**	767	862	834	1,201
Tax liabilities	**192**	13	3	122	255
	1,674	2,233	1,907	4,570	2,716
Non-current liabilities					
Financial liabilities	**—**	—	—	—	1,144
Provisions	**—**	—	—	—	136
Government grants	**—**	15	25	48	59
Deferred tax liabilities (net)	**516**	562	610	260	590
	516	577	635	308	1,929
Total liabilities	**2,190**	2,810	2,542	4,878	4,645
Net assets	**25,798**	26,765	26,776	23,236	20,691
Capital and reserves					
Equity share capital	**160**	160	160	154	153
Share premium	**8,994**	8,994	8,994	7,766	7,552
Retained earnings	**16,644**	17,611	17,622	15,316	12,986
Total equity	**25,798**	26,765	26,776	23,236	20,691

PARENT COMPANY STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2019

	Notes	2019 £'000	2018 £'000
Assets			
Non-current assets			
Property, plant and equipment	3	**4,174**	4,287
Investments	4	**10,106**	10,106
		14,280	14,393
Current assets			
Trade and other receivables			
– amounts falling due within one year	5	**10**	12
– amounts falling due after one year	5	**538**	135
Cash and short term deposits		**10,451**	9,847
		10,999	9,994
Total assets		**25,279**	24,387
Equity and liabilities			
Current liabilities			
Trade and other payables	6	**192**	220
Non-current liabilities			
Deferred tax liabilities (net)	7	**163**	170
Total liabilities		**355**	390
Net assets		**24,924**	23,997
Capital and reserves			
Equity share capital	8	**160**	160
Share premium	8	**8,994**	8,994
Retained earnings		**15,770**	14,843
Total equity		**24,924**	23,997

The Company's profit for the year was £4,585,000 (2018: £3,546,000).

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

Mark Cambridge
Chief Executive
9 December 2019

Claire Smith
Group Finance Director

Zytronic Group plc: Registered number 03881244

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
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 1 October 2018	160	8,994	14,843	23,997
Profit for the year	—	—	4,585	4,585
Dividends	—	—	(3,658)	(3,658)
At 30 September 2019	**160**	**8,994**	**15,770**	**24,924**

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019

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 9 December 2019. 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 2019.

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) 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	–	40 years
Long leasehold property	–	30–50 years

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

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

(d) Investments

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

(e) Financial instruments

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

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

Cash and cash equivalents

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

Interest-bearing loans and borrowings

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

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

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.

(f) Tax

Current tax

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

Deferred tax

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

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

1. Accounting policies continued

(f) Tax continued

Deferred tax continued

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

2. Auditor's remuneration

Auditor's remuneration for the year ended 30 September 2019 was £14,000 (2018: £13,000).

3. Property, plant and equipment

	Land £'000	Freehold property £'000	Long leasehold property £'000	Total £'000
Cost				
At 1 October 2018 and 30 September 2019	**207**	**3,070**	**2,097**	**5,374**
Depreciation				
At 1 October 2018	—	645	442	1,087
Provided during the year	—	61	52	113
At 30 September 2019	**—**	**706**	**494**	**1,200**
Net book value at 30 September 2019	**207**	**2,364**	**1,603**	**4,174**
Net book value at 1 October 2018	207	2,425	1,655	4,287

4. Investments

Investments in subsidiary companies

	2019 £'000	2018 £'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

	2019 £'000	2018 £'000
Prepayments and accrued income	**9**	12
VAT	**1**	—
	10	12

Amounts falling due after more than one year are:

	2019 £'000	2018 £'000
Amounts owed by Group undertakings	**538**	135

6. Trade and other payables

	2019 £'000	2018 £'000
Trade creditors	**7**	2
Other creditors and accruals	**59**	76
Other amounts owed to subsidiary undertakings	**81**	117
Corporation tax	**45**	25
	192	220

7. Deferred tax liability

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

	2019 £'000	2018 £'000
Accelerated capital allowances	**163**	170
At 1 October	**170**	177
Credit in the statement of comprehensive income	**(7)**	(7)
At 30 September	**163**	170

8. Equity share capital

(a) Share capital

	2019 Number Thousands	2018 Number Thousands	2019 £'000	2018 £'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 2018	8,994
At 30 September 2019	**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 July 2020. 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 4 February 2020 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 2019 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 2019 on Friday 7 February 2020 to members on the Register at the close of business on Friday 10 January 2020.
3. To re-elect David Buffham as a Director.
4. To re-elect Claire Smith as a Director.
5. 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 2021 (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 2021 (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.

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

Special business continued

(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 2021 (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 2021 (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

9 December 2019

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 9:30am on Friday 31 January 2020 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 6:00pm on 31 January 2020; 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 4:00pm on Friday 31 January 2020 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

4. Copies of contracts of service between the Directors and the Company or any of its subsidiary undertakings will be available for inspection during normal business hours by members at the registered office of the Company on each business day from the date of this notice until the date of the Annual General Meeting, and at the place of the Annual General Meeting for at least 15 minutes prior to, and during, that meeting.

CORPORATE INFORMATION

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

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