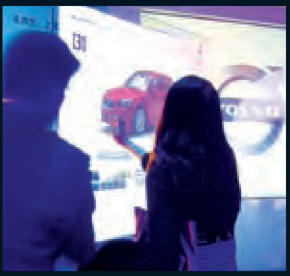
Zytronic plc
annual report and financial statements 2009

innovation.
customers.
products.



see our website for more information
www.zytronic.co.uk

CORPORATE STATEMENT

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

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

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

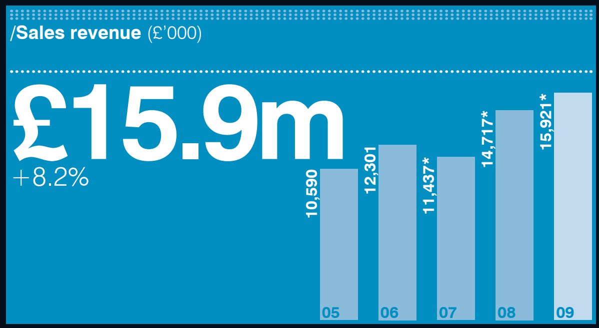
HIGHLIGHTS

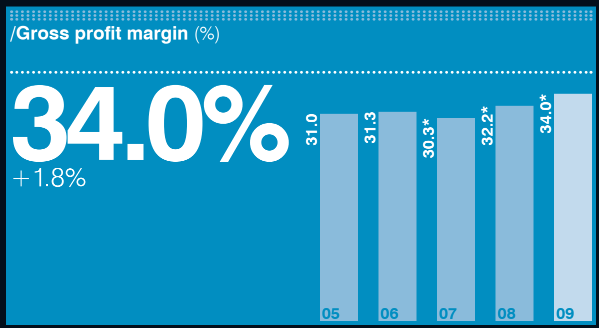
FINANCIAL HIGHLIGHTS

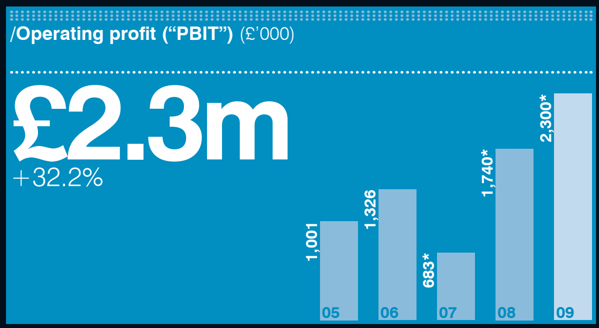
- Group revenue of £15.9m increased by 8.2% (2008: £14.7m)
- Growth of 18.2% in touch sensor sales
- Profit before tax increased 32.2% to £2.3m (2008: £1.7m)
- Earnings per share increased 58.9% to 11.6p (2008: 7.3p)
- Final dividend proposed of 3.8p – total for year increased by 25.0% to 5.0p (2008: 4.0p)

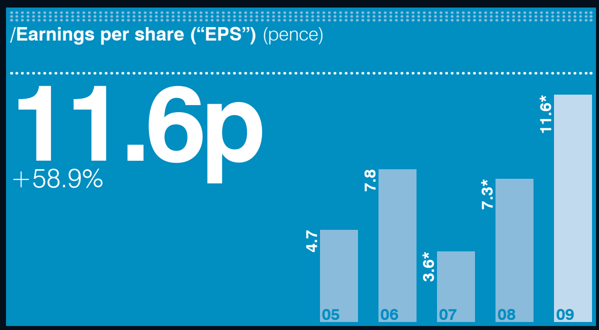
OPERATIONAL HIGHLIGHTS

- ZYPOS® touch sensor sales increased by 54.9%
- Export sales now represent 85.9% of Group sales (2008: 79.4%)
- ZYPOS sensors selected for the Coca-Cola Freestyle(TM) self-serve fountain dispenser
- First approvals received in the white goods sector









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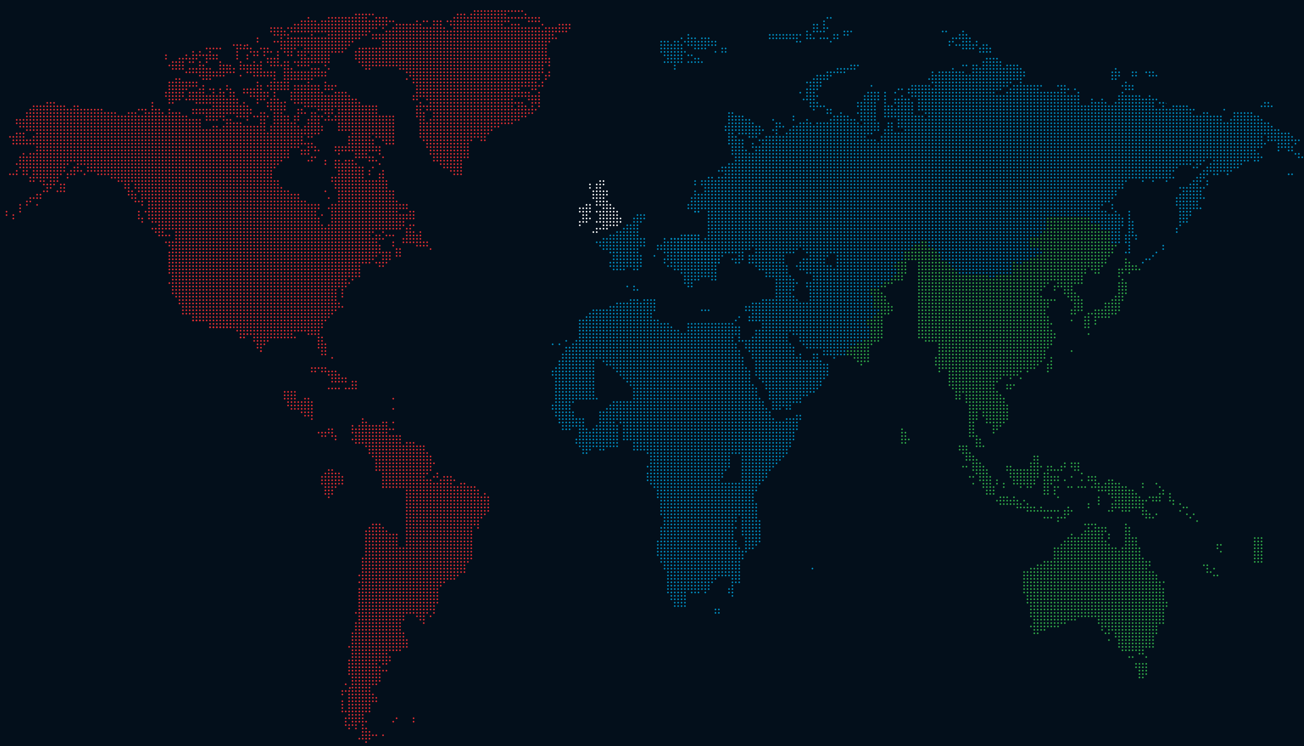
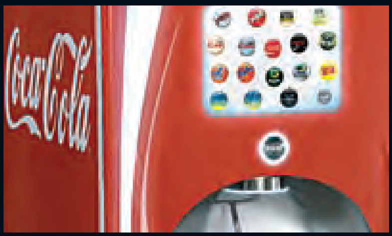
our year
corporate governance
financial statements

see more on our market and products
www.zytronic.co.uk/products



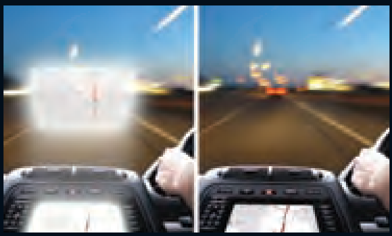
/Electronic display products



TOUCH SCREENS

The manufacturing technology, PCT, employed for its touch sensors is unique to Zytronic and offers significant benefits to traditional users of resistive, capacitive and Surface Acoustic Wave ("SAW") technologies. Unlike the other touch technologies, the active component of Zytronic's technology is embedded for protection, providing a true safety laminated, pure glass fronted construction.

PCT offers significant benefits to electronic display manufacturers. The touch sensing layer consists of an array of microfine capacitors that are not visible on a powered display. Zytronic provides a family of glass based touch sensors using its patented PCT, marketed as ZYTOUCH®, ZYPOS, ZYBRID and ZYSWITCH® touch sensors, and two plastic-based touch sensors ZYFILM® and ZYPROFILM®, to meet customers' differing requirements.

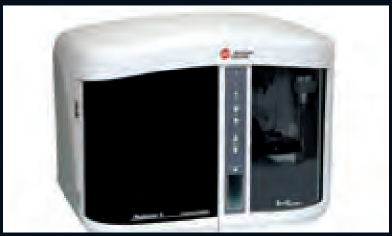


OPTICAL FILTERS AND DISPLAYS

Zytronic optical filters are used to enhance the readability of all types of electronic displays by controlling light transmission, reflection and absorption. The filters can also provide protection of the display from abrasion and impact damage thereby extending the life of the display.

Both monolithic and multi-layer composites in glass or polycarbonate or acrylic are available. The optical laminations are manufactured by bonding together, under carefully controlled conditions, two or more glass or plastic materials using proprietary bonding techniques.

Zytronic produces a wide range of optical filters which are designed to meet specific customer requirements for viewability of display systems in different environments.



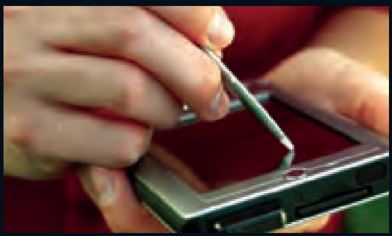
EMI/RFI SHIELDED FILTERS

Electromagnetic Interference ("EMI") can be described as any form of electrical disturbance, signal or noise which interferes with the ability of electrical or electronic equipment to function correctly.

This interference is also referred to as Radio Frequency Interference ("RFI") and is active throughout the environment. Its effects vary from impaired TV or radio reception to severe disruption of communications, data processing and medical and defence activities. Its sources are both natural and man-made. It is also necessary to contain emitted signals from computer and data handling equipment to prevent electronic eavesdropping for example.

Zytronic has its own specialist plating plant to enable it to manufacture such filters to customers' exacting specifications.

/Other products



LAMINATED PRODUCTS

Laminated glass is produced by bonding two or more layers of glass together by means of a special plasticised interlayer, polyvinyl butyral ("PVB").

This interlayer, after processing under controlled heat and pressure conditions, assumes a similar refractive index to the glass – consequently having no adverse effects upon light transmission – and at the same time, absorbing over 99% of the harmful ultraviolet rays found in natural sunlight. The excellent bond strength of the PVB to glass serves to maintain the integrity of the laminate in the event of deliberate or accidental damage, whilst also preventing penetration through the assembly.

BALLISTIC VISORS

Zytronic is a manufacturer of specialist glass and plastic composites for ballistic security and specialised display applications.

Zytronic has developed a fully laminated ballistic face visor combining the properties of PMMA and polycarbonate bonded together using a proprietary TPU sheet interlayer.

The unique process involved in bonding these two materials results in the finished visor offering supreme optical quality, minimal distortion and the highest light transmission when compared to the traditional air-spaced option.

/End users

- ATMs
- Jukeboxes
- Self-service systems
- Medical equipment
- Information systems
- Gaming technology
- Digital signage
- Industrial control

WHAT OUR CUSTOMERS SAY

see more testimonials from our clients

www.zytronic.co.uk/case-studies/testimonials

Travis Gray/Product Line Manager at **Mobile Knowledge**

A touch sensor technology that offers easy integration, reliability, durability and resistance to contaminants and harsh chemicals ranging from coffee to cleaning fluids was seen as critical to the success of the Passenger Information Monitor, which is why we selected ZYPOS.

Anthony Spier/Chairman and Chief Executive of **Wells-Gardner, Illinois**

"Zytronic Displays Limited has very exciting technology that I believe our customers will find attractive" said Anthony Spier, Wells-Gardner's Chairman and Chief Executive, on the appointment of its subsidiary American Gaming & Electronics as Zytronic's distributor for gaming, casinos, lottery and amusement products, incorporating PCT touch sensors.

Jonathan Howe/Director of Manufacturing and Partner Development of **Ecast, California**

"Our interactive media products are the gateway to high transaction, rich media experiences in-venue, and ZYBRID has played a central role in enabling us to deliver this vision for our customers" noted Jonathan Howe, Director of Manufacturing and Partner Development, Ecast, the leader in place-based interactive media.

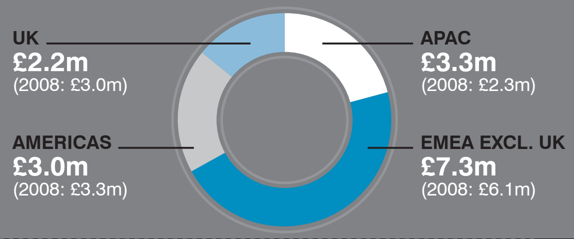
Tim Scanlon/Vice President of **ThoughtForm, Inc.**

ZYTOUCH proved invaluable in meeting our design goals, and enabled us to deliver a solution that closely matched our original concept. This is central to our mission at ThoughtForm, which is to operate at the forefront of the fast-moving commercial design community worldwide.

Over the last eight years we have developed our patented technology in to a family of product offerings for use in a wide range of applications.

We continue to work closely with customers to develop new touch solutions to meet their application requirements.

/**Sales** (£m)



Dr Robert Keith/Technical Director of
K2 Medical Systems

“ ”
Touch sensors must be easy to keep clinically clean, offer good light transmission with no glare, and must be strong enough to pass medical device standards, which include a 2-inch steel ball drop test. Zytronic's touch technology delivered and surpassed all of these criteria.

Morgan Drew/Chief Executive Officer of
Abuzz

“ ”
Zytronic was the only manufacturer with the technology to allow us to optimise the functionality and aesthetics of the Edge kiosk without compromising the integrity of our design concept. PCT sensing technology works reliably, even through the thick layer of toughened protective glass.

Jacques Le Gars/New Technologies Manager of
JCDecaux, France

“ ”
“With Cyclocity (a self-service bike rental system in operation in several French and Belgian cities) we needed to combine the durability requirements of an outdoor application in unsupervised locations, with the cost constraints of a public service.” says Jacques Le Gars, New Technologies Manager for JCDecaux. “ZYTOUCH touch sensors provided the perfect solution, offering excellent readability, high reliability in all kinds of weather conditions, and resistance to vandalism.”

Peter Livesey/Managing Director of
Esprit Digital

“ ”
Zytronic's glass display panels offer reliability, optical clarity and resistance to the harsh environment of the London underground system.

Morgan Wen/Marketing Director of
Sunvision Technology, Taiwan

“ ”
Since these Zytronic sensors can detect touch through a toughened glass overlay, our customers are assured that the table also has a more prolonged operating lifespan than could have been expected with any alternative touchscreen solution on the market.

Jessie Wu/Product Manager of
Advantech, Taiwan

“ ”
Design flexibility, reliability and durability were all crucial factors that Zytronic's PCT met to ensure the success of this application, and this was backed by the Company's excellent local support. ZYBRID did not have any of the restrictions that we recognised in the other available touch technologies, and it allowed us to rapidly take our original product concept to reality.

Scott Begbie/Engineering manager of
APC Technology

“ ”
The technical support we had on this particular project was second-to-none. And, by using PCT-based screens, we can ensure that our FT products satisfy our customers' requirements of working well when they are wet or dirty.

CHAIRMAN'S STATEMENT

….continuing growth in touch sensor sales, particularly in the gaming, vending and ATM markets, combined with the first products now being specified into the white goods sector, give the Directors confidence that, even in these challenging conditions, the Group will continue to grow and prosper in the years ahead.

SUMMARY OF CHAIRMAN'S STATEMENT

- Continued strong growth of touch sensor sales, increased 18.6%
- Increased geographical and industrial diversification
- Pre-tax profit increased by 32.2% to £2.30m (2008: £1.74m)
- Tax rate of 26% (2008: 39%)
- Reported basic EPS of 11.6p, increasing by 58.9% (2008: 7.3p)
- Proposed final dividend increased to 3.8p (2008: 3.0p)
- Cash balances of £109,000 (2008: £651,000)
- Year end gearing increased to 31.3% (2008: 11.4%)
- Cash balances and unused banking facilities of £2.4m

I am pleased to be able to report good trading results for the year ended 30 September 2009 in the teeth of what is probably the worst financial crisis on record.

RESULTS

Revenue for the year under review has increased by 8.2% to £15.9m (2008: £14.7m). Gross margins improved by 1.8% to 34.0% (2008: 32.2%) leading to a 32.2% increase in pre-tax profits at £2.3m (2008: £1.7m) with reported basic EPS rising 58.9% to 11.6p per share (2008: 7.3p per share).

TRADING

Sales growth of 8.2% has been led by a strong increase in touch sensor sales which have increased by 18.2% to £10.0m in 2009 (2008: £8.5m) and now represent a healthy 63% (2008: 58%) of the Group's total sales, whilst other products have reduced by 6% against the corresponding period last year.

The growth in exports, which now represent 85.9% of the Group's total sales (2008: 79.4%), particularly in the markets of Asia Pacific and EMEA, has made a major contribution to the improved trading performance. The split is as follows:

	2009 £m	2008 £m	2007 £m
UK	**2.2**	3.0	4.1
Americas	**3.0**	3.3	2.6
EMEA (excluding UK)	**7.4**	6.1	3.6
Asia Pacific	**3.3**	2.3	1.1
TOTAL	**15.9**	14.7	11.4

The Group's natural hedging reduces the impact of currency fluctuations; 45% of total sales are invoiced in currencies other than Sterling (Dollars and Euros) with more than 60% of material purchases in those currencies.

In addition, and more importantly for the longer term, the efficiencies that are now being achieved in the new manufacturing facilities have improved margins.

Sales of ZYPOS sensors have grown by 54.9% over the last year, the growth coming from gaming, in the form of wagering and betting terminals, vending machines and dispensing machines. As announced in July of this year, Zytronic's touch sensors were selected for use in the innovative Coca-Cola Freestyle(™) self-serve fountain dispenser. This product is now entering production and volumes are expected to increase over the course of 2010/11. In addition, the first approvals have been received in the white goods sector and it is anticipated that this will start to impact towards the end of the 2010 financial year.

CASH

The Group continues to generate significant cashflow from operating activities, which increased by 25.0% to £2.5m (2008: £2.0m). During the course of the year, the Group took advantage of the disruption in the commercial property market and low interest rates to purchase, for the sum of £3.5m, the freehold and long leasehold of its two leased properties. These purchases were part financed by a term loan of £2.25m repayable over ten years. This led to an increase in the gearing ratio to 31.3% (2008: 11.4%).

At the year end, the Group had net cash balances of £0.1m (2008: £0.7m) and unused banking facilities at its disposal of £2.4m.

DIVIDEND

The Directors are pleased to recommend a final dividend of 3.8p per share payable on 26 February 2010 to shareholders on the Register of Members on 12 February 2010. Following a dividend of 1.2p per share paid on 26 June 2009, this will bring the total dividend for the year to 5.0p per share (2008: 4.0p per share).

OUTLOOK

The global economic outlook over the next two years will undoubtedly be very challenging. Whilst the Directors anticipate that this will impact on the sales of some of the Group's products, continuing growth in touch sensor sales, particularly in the gaming, vending and ATM markets, combined with the first products now being specified into the white goods sector, give the Directors confidence that, even in these challenging conditions, the Group will continue to grow and prosper in the years ahead.

JOHN KENNAIR, MBE
CHAIRMAN
16 December 2009

BUSINESS REVIEW

A summary of the results over the last three years shows the strong performance from 2007, the growth in sales, the continuing increase in the gross profit margin percentage and the improving profitability…

SUMMARY OF BUSINESS REVIEW

- Sales revenues increased 8.2% to £15.9m
- Continued strong growth of touch sensor sales, increased by 18.2%
- Increased geographical and industrial diversification
- 85.9% of sales are exported
- ZYPOS sales increased by 54.9%
- Good progress with R&D activities
- Acquired our two existing leased factories

TRADING RESULTS

A summary of the results over the last three years shows the strong performance from 2007, the growth in sales, the continuing increase in the gross profit margin percentage and the improving profitability (profit before tax) of the business:

	2009 £'000	2008 £'000	2007 £'000
Revenue	**15,921**	14,717	11,437
Gross profit	**5,407**	4,739	3,466
Gross profit	**34.0%**	32.2%	30.3%
Profit before tax	**2,300**	1,740	683
	Pence	Pence	Pence
Basic EPS	**11.6**	7.3	3.6
Dividends paid and proposed for the year	**5.0**	4.0	3.0

OPERATIONAL OVERVIEW

Manufacturing stability and consistency have proved to be the most challenging operational aspects during a difficult 2009.

The inevitable fluctuations in demand from our ATM customers, predominantly through quarters two and three, as discussed below, resulted in some production difficulties in maintaining the levels of efficiency improvements in the main manufacturing facility during that period. These fluctuations however, were more than offset by the growth in the demand for ZYPOS products and by the efficiency improvements coming through the new ZYPOS manufacturing facility throughout the whole year.

Successful and speedy management of the productive workforce during the latter stages of quarter two and throughout quarter three proved to be one of the key factors in the control and performance of the business in 2009. Productive employee numbers were considerably flexed during the year to accommodate the substantial reduction in the traditional business and the normal absence levels due to planned holidays and illness, whilst accommodating the growth in ZYPOS manufacture. The resultant average quarterly productive labour headcount levels were 169 persons per week throughout quarter one, a decrease to 123 persons during quarters two and three, and an increase to 130 persons during quarter four.

SALES

As reported in the Chairman's statement, the Group's sales for 2009 were £15.9m (2008: £14.7m) increasing by 8.2% over the previous year. 85.9% of these sales were exports.

Although total sales growth was lower in percentage terms than 2008, the increase was achieved during unprecedented turbulence in the global economy and can be largely attributed to the continued increase in demand of our proprietary PCT touch sensor products, which exhibited an overall increase in units supplied of 6%. The Group also increased the proportion of export sales, especially those denominated in the primary foreign currencies of US Dollars and Euros (2009: 45%; 2008: 35%), which benefited from the depreciation of Sterling over the prior year.

Key features in the growth of the Group are set out below.

CONTINUED GROWTH OF TOUCH SENSOR SALES

The total growth in the Group's touch product sales compared with 2008 was 18.2% (2009: £10.0m; 2008: £8.5m), with these products accounting for 63.1% of the total group sales, compared with 57.7% in 2008.

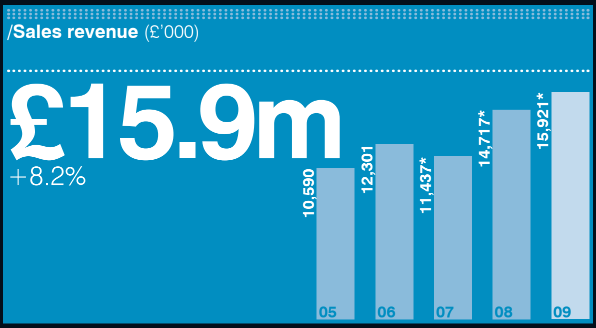
In 2009, exported sales of our touch sensor products have again attained over 87% by value of the total touch product sales, of which 51% can be attributed to shipments of ZYTOUCH to our ATM customers.

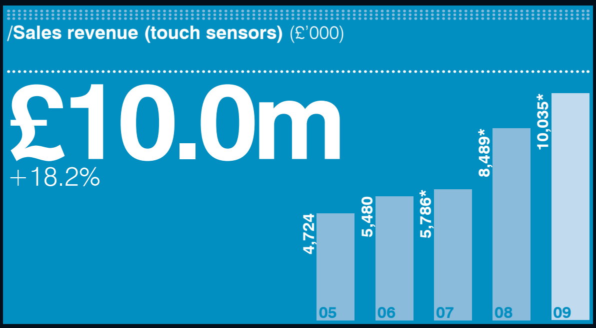
Overall the APAC region continued to demonstrate the most rapid growth, but with the largest export region by value remaining mainland Europe.

The ultra robust ZYTOUCH touch sensor product line exhibited a 1.8% total revenue growth (2009: £5.8m; 2008: £5.7m) reflecting the trend in the non-ATM product lines of the adoption of the customisable ZYBRID product as an alternative to ZYTOUCH in applications where cost and the ability to tailor the product, rather than extreme durability, are the key requirements.

Sales of our ZYPOS and ZYBRID products continued to demonstrate good growth at 54.9% (2009: £3.9m; 2008: £2.4m), reflecting the increasing number of design wins and customer projects entering the full production phase in applications such as gaming and wagering terminals, plus the initial production deployments in new design wins in self-service and information system applications. As a consequence, unit volume production was up by nearly 20%, with just over 31,000 units shipped.

Sales of the other PCT product groups have also increased significantly in the year. The ZYSWITCH product has grown from £10,000 in 2008 to over £111,000 in 2009; the increase being largely driven by the successful launch by a European customer of a four player video poker gaming table application. Furthermore, sales of our two all plastic based interactive foil products, ZYFILM and ZYPROFILM, nearly doubled in 2009 compared with 2008, reaching £100,000.





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The Coca-Cola Freestyle™ drinks dispenser

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Zytronic is excited to be involved in such an innovative project. A touchscreen is an excellent solution for this application with such a broad selection of beverage options.

Mark Cambridge
Zytronic's Chief Executive Officer

Zytronic has been chosen by The Coca-Cola Company to supply the touch panel for its proprietary Coca-Cola Freestyle(™) beverage dispenser. The dispencer utilises innovative technology to dispense more than 100 different branded sparkling and still beverages from a single freestanding unit.

For nearly four years, The Coca-Cola Company(™) has been developing the proprietary dispensing system. The Coca-Cola Freestyle(™) dispensers will incorporate a ZYPOS customised touch sensor, which uses Zytronic's patented PCT, as the consumer and crew interface. It also enables the dispenser to share product information via a bright 15.1" display, and to gather important consumer choice data with the aid of an intuitively designed graphical user interface ("GUI").

With Coca-Cola Freestyle(™), the touch display is mounted behind a moulded polycarbonate full-front facia that can be wiped clean. Uniquely, ZYPOS sensors are able to work through this overlying material facilitating a design without the need for a display bezel, which is both stylish and hygienic.

BUSINESS REVIEW CONTINUED

With global sales channels extremely important to the success of the business, we are pleased to note that during 2009 we continued to strengthen our North American representation network and also appointed new distributors in Japan and Turkey.

34
distributors/ representatives

34
countries

85.9%
sales exported

SALES CONTINUED

CONTINUED GROWTH OF TOUCH SENSOR SALES CONTINUED

Sales of our Keypad PIN input product supplied into the European petrol pump market declined slightly in 2009 going from £271,000 to £203,000 as the petrol pump product continues its application evolution to a single touch screen solution as a replacement for the PIN device and separate screen. The touch product accessories, such as cables and connectors, remained consistent for the year at about £26,000.

The net result of the improved ZYPOS and ZYBRID sales, combined with the non-ATM based ZYTOUCH sales and the increase in demand for the other touch variants, contributed to an overall growth in sales of touch sensor products, excluding those to our ATM customers, of 11.5% over that of 2008.

With global sales channels extremely important to the success of the business, we are pleased to note that during 2009 we continued to strengthen our North American representation network and also appointed new distributors in Japan and Turkey. The Japanese distributor, in particular, is expected to provide us with significant growth opportunities in the expanding markets of self-service and digital signage.

THE ATM CUSTOMERS' TOUCH SENSOR AND DISPLAY SALES

Despite the encouraging growth in overall sales, Zytronic did not entirely escape the effects of the global economic crisis during 2009, witnessed in sales of our products used by ATM manufacturers.

Zytronic runs fiscally one quarter in advance of our main ATM customers, therefore the first financial quarter of our 2009 equates to the final quarter of our customers 2008 fiscal period.

Historically, the ATM market is noted to be seasonal with customers' demand peaking in their final quarter and running at its lightest at the start of their new fiscal year. Although agreed VMI programmes mitigate short term peaks and troughs in demand, they do not remove this overall seasonality of the market.

Following the expected strong final quarter of the 2008 financial year, the ATM market started the new financial period in a reasonably buoyant mood, predicting a modest 5–10% anticipated growth for the year. However, by the end of their first quarter (our second), this positive forecast had been replaced by a more pragmatic reforecast of a 10% drop compared to 2008 resulting from a dramatic reduction in ATM demand from the banking sector.

The consequential effect on Zytronic was a very healthy first quarter followed by an expected reduction in demand in our second quarter. However this migrated into a protracted period of low activity stretching into the third quarter before finally returning to modest growth levels during the final period of our financial year. In comparison, based upon historical data, we would normally have expected a return to growth at the end of the second quarter.

The global economic situation also drove a geographical shift in the supply of our products to our ATM customers. Most notably, product shipments into the Americas declined by 52.1% (approximately 17,000 units) in 2009, as a result of major restructurings in ATM manufacturing facilities. Production was shifted from locations in the USA and shared between other manufacturing locations, resulting in a significant increase in demand from Asian facilities.

Advantech's Digital Signage Interactive Station

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Design flexibility, reliability and durability were all crucial factors that Zytronic's PCT met to ensure the success of this application, and this was backed by the company's excellent local support. ZYBRID did not have any of the restrictions that we recognised in the other available touch technologies, and it allowed us to rapidly take our original product concept to reality.

Jessie Wu/Product Manager at
Advantech, Taiwan

Advantech, the Taiwanese applied computing giant, has formally announced that it will incorporate the fully customisable ZYBRID touch sensor into its latest product offering, the Digital Signage Interactive Station.

The design brief to Zytronic from Advantech was to provide a rugged, public-use touch sensor with a screen printed border and the capability to be flush mounted.

The Digital Signage Interactive Station has been designed to be employed in a broad range of different public environments. These will include; hotels, conference centres, retail areas, cinemas, exhibitions, and museums. The high definition LCD screens integrated into each of these stations will have an output of 700cd/m^3, giving users bright, high resolution, and visually stunning images to enjoy. Each of these stations will feature a 42-inch ZYBRID touchscreen, enabling advertisers to engage with consumers at a personal level using compelling, interactive digital media, rather than presenting information in a far less interesting, one-way, passive style.

In total across all ATM customers and both associated product groups, unit supplies into Asian sites increased by 33.9% (approximately 8,600 units) compared with 2008, whilst Europe remained static at approximately 69,000 units.

Over the course of the year we experienced an encouraging increase in demand from our ATM customers for touch sensors, with the quantity of ZYTOUCH units sold in 2009 compared to 2008 increasing by 17.5% (approximately 3,550 units), whereas the total display product units declined by 11.6% (nearly 12,500 units).

The net result of the increase in touch unit sales and the decline in display unit sales, was that the ratio of display to touch product unit sales moved close to the previously market anticipated 5:1 (historically 7:1). We attribute this trend to an increase in deployment by banks of high specification, fully functioned ATMs primarily in Asian markets, but as yet it is probably still too early to ascertain if this is a long-term shift.

SALES OF OTHER NON-ATM DISPLAY AND TOUCH PRODUCTS

Sales of other traditional non-ATM display and non-touch products, such as RFI/EMI shielding; anti-vandal panels for the emerging large form factor digital display markets; and light diffuser systems for transit and underground stations, decreased by 6.0% during 2009 (2009: £1.9m; 2008: £2.1m).

GROSS PROFIT

The gross margin percentage increased again this year, from 32.2% to 34.0%, continuing to build on the progress seen since 2002.

To ensure that we continue to improve the gross margin percentage, we regularly review the sources and costs of raw material supplies, the design of our products and the processes that we are using in their manufacture as well as our number and use of staff. Overheads are continually challenged and opportunities are taken to reduce them. In this regard, the acquisition of the leased properties, see below, has brought through savings in the last quarter of FY2009, which will increase next year.

ADMINISTRATION OVERHEADS AND DISTRIBUTION COSTS

We have continued to keep these costs under tight control during the year. The net increase was only £0.14m (£3.03m against £2.89m), an increase of less than 5%. As salary costs remain the largest single item in administration overheads (over 50%), we review them annually in comparison to market rates and the developing roles of our employees.

BUSINESS REVIEW CONTINUED

The R&D function has continued in 2009 to play a significant driving role in the further enhancement of our touch interactive product offerings and in satisfying both customer expectations and service.

RESEARCH AND DEVELOPMENT REVIEW

The Group has continued to invest significant amounts in developing its electronics and materials technologies during the year. The Directors have capitalised development expenditure of £133,000 (2008: £173,000) and £291,000 was expensed to trading profit (2008: £224,000) in respect of R&D costs.

The Directors have continued to take advantage of the Government's incentives for R&D through HMRC's R&D tax credit scheme. Under this scheme, the Group can claim an additional tax credit of 75% on qualifying R&D expenditure. The benefit of this to the tax charge is shown in note 6.

The R&D function has continued in 2009 to play a significant driving role in the further enhancement of our touch interactive product offerings and in satisfying both customer expectations and service.

As discussed in previous years, with the new ZYPOS sensor manufacturing facility now being fully operational, the main R&D focus has been on the enhancements of the accompanying electronics and software, especially in the porting of the electronic controller's functionality on to the newly released STMicroelectronics ARM® family of processors.

In conjunction with this work, the electronics team has continued throughout 2009 on the development of the Zytronic ASIC (Application Specific Integrated Circuit) chip, which is being developed to replace the analogue circuitry which constitutes approximately 55% of the surface area of the existing ZXY series controller family. Although it was hoped that first off-market prototypes would have been available by the end of fiscal 2009, due to a small fault in the underlying silicon base, discovered during initial prototype testing, it is now more likely that production prototypes will not be available until the end of March 2010.

The work on combining the above two new items into a new controller for 2010, under the banner of the new Zytronic ZXY100 series controller family, will result in a significant number of advancements against the existing solution offered today, these being;

- true lower cost chipset solution to large volume application users;
- increased speed of response, accuracy and functionality Improvements;
- consistent performance over a broad range of panel sizes from 6" to 82";
- in-field programming to allow for seamless updating of firmware in-situ; and
- minimum two touch point gesturing and multi-touch functionality.

The material, mechanical and industrial engineers have continued to evaluate new processes and materials throughout the year, as a means to offer and meet internal and customer specific cost reduction programmes.

During 2009, the R&D team has investigated the use of extending, into other product areas, the room temperature lamination techniques developed for ZYPOS production, especially in conjunction with products incorporating additional filter mediums. It is anticipated that we will begin to ship products utilising these manufacturing techniques in quarter one of fiscal 2010.

As previously discussed in the 2008 annual accounts, R&D review work has continued in evaluating alternative means of creating sensing conductor tracks at approximately five micron feature sizes, as a means of improving and enhancing the optical transmissivity of the touch sensor products above that presently achieved. To date a commercially viable solution has not yet been established but the work, in combination with our external partners, looks positive.

As well as the above development work and general customer technical support, the R&D team has continued to undertake customer specific development projects in application fields such as medical, white goods and gaming etc. This is a similar type of project work (previously announced in June 2009) undertaken with The Coca-Cola Company on the touch sensor system used in its new Freestyle® customer facing multi-variety drinks dispensing unit.

To deal with the increasing levels of customer technical support both internally and externally, the R&D team was increased by one in April 2009, with the recruitment of an additional electronic engineering graduate.

PRE-TAX PROFIT

The profit before tax of £2.3m reflects a significant improvement of £560,000 (32%) over the prior year's profit of £1.8m. The reasons for this excellent performance are noted elsewhere in this annual report and financial statements.

TAXATION

The Group's taxation charge of £593,000 (25.9%) is slightly lower than the standard rate of corporation tax of 28%. The factors which affect the Group's taxation charge are outlined further in note 6.

EPS AND DIVIDENDS

Reported basic EPS of 11.6p has increased by 59% from last year (2008: 7.3p). This reflects the significant improvement in profitability, as the number of shares in issue of 14,674,121 remained static during the year.

There were grants of new share options during the financial year for 36,500 shares and the total number of share options outstanding at 30 September 2009 was 527,598. The dilutive effect of all these existing options and the vesting in full of the Chief Executive's incentive scheme on the EPS is less than 1%.

The Group paid an interim dividend of 1.2p on 26 June 2009. With the increasing profitability seen in this financial year, the Group intends to continue its progressive dividend policy. A resolution to approve the payment of a final dividend for the year ended 30 September 2009 of 3.8p is included in the Notice of Annual General Meeting. This will bring the total dividend for the year to 5.0p (2008: 4.0p).

CASHFLOW AND WORKING CAPITAL

The Group has continued to generate net cashflow from operating activities, as shown in the consolidated cashflow statement (page 32) and this has increased again with the growth in profitability. It amounted to just under £2.5m this year in comparison to £2.0m in 2008.

As expected, our working capital has increased, by £0.2m (2008: £0.8m), with the growth in the Group's business. Stocks remained static. Trade and other receivables have increased by £71,000 (note 12a). Trade creditors decreased by £133,000.

CAPITAL EXPENDITURE ON FIXED ASSETS

As noted in the Chairman's statement, the Group has completed the acquisition of the freehold title and 999-year lease on its two existing leased factories in May and June 2009, following the acquisition of the third factory on the site in 2006. The total cost of the two properties bought this year was £3.5m, which was part-funded by a ten-year mortgage for £2.25m.

Other capital additions to tangible fixed assets (non-property related) and intangible fixed assets were £152,000 and £223,000 respectively (2008: £561,000 and £246,000 respectively). Total depreciation and amortisation for the year totalled £920,000 (2008: £875,000.

During the year, one of our two remaining tenants vacated its two units, adjacent to our ZYPOS facility. Between January and March 2009, Zytronic refurbished that facility, fitting it out with new storage shelving and integrating it into the existing manufacturing facility as a new goods inwards and warehousing operation. As part of this development, all raw materials are now barcode readable for storage and stock control purposes and are fully linked to the Group's MRP system. The cost of this refurbishment and fit-out was some £140,000. The last tenant is due to leave around this New Year, and its two units will be integrated into the ZYPOS facility.

FUNDING AND GEARING

The Group has continued with the repayments on its existing ten-year property mortgage, taken out in 2006, its three-year chattel mortgage loan and the ten HP agreements taken out in FY2007 and FY2008. It also began repayments on the new ten-year mortgage taken out in June 2009, as referred to above. Total repayments in the year amounted to £639,000 (2008: £561,000).

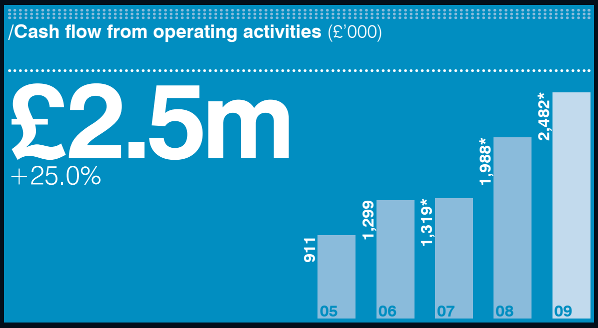
To ensure that the Group has adequate longer term funding to provide cover for future working capital requirements and capital expenditure needs, the Group has in place further loan facilities. In particular, the Group has an unused £2.0m three-year revolving credit facility with Lloyds TSB Bank, expiring in June 2012. The Group also has an overdraft facility of £1.0m with Lloyds TSB Bank, of which only £670,000 was in use at the year end, and has been progressively building up its net cash balances. At the year end the net cash balances were £109,000.

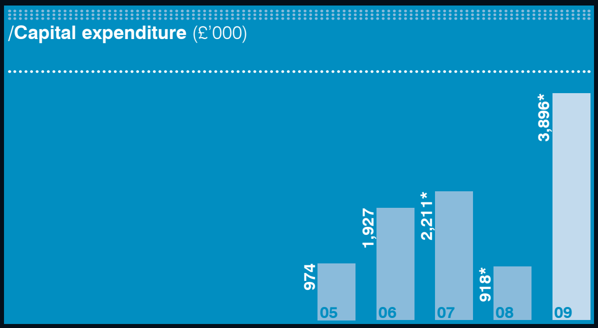
At 30 September 2009, the net cash balances were £0.11m (2008: £0.65m), medium term borrowings were £2.68m (2008: £1.7m) and the total net debt was £3.13m (2008: £1.0m). The net gearing level (all borrowings less positive cash balances divided by net assets) was 31% (2008: 11%).

Finally, we would like to express the thanks of the Board of Directors to all employees of the Zytronic Group for their co-operation throughout 2009 in delivering the good business performance described above.

MARK CAMBRIDGE, B.SC
CHIEF EXECUTIVE

DENIS MULLAN, B.SC, FCA
FINANCE DIRECTOR
16 December 2009





* IFRS.

BOARD OF DIRECTORS

JOHN MARTIN KENNAIR, MBE
(D.O.B. 11/03/44)
CHAIRMAN

John joined the Romag Group in 1971 and was appointed Group Chief Executive in 1975. He was responsible for the development of the glass business of the Romag Group into a wide range of new technologies, including bomb and bullet resistant glass, electronic shielding and touch sensors. In 1990 he was awarded an MBE for services to the specialised glass industry. He led the demerger of Zytronic Displays Limited from the Romag Group and the flotation of its Parent Company, Zytronic plc, in July 2000. He also led the subsequent flotation on AIM in November 2003 of Romag Holdings plc, of which he is Chairman. John stepped down as Chief Executive on 21 January 2008 on the appointment of Mark Cambridge.

MARK CAMBRIDGE, B.SC
(D.O.B. 09/01/64)
CHIEF EXECUTIVE

Mark graduated with a B.Sc (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 has held the positions of Technical Manager, Quality Manager and Technical and Quality Director, up to the demerger and flotation of Zytronic plc. Since 2000 he has overseen the development, market introduction and sales of the ZYTOUCH touch sensor product and the market launch of ZYPOS touch sensors. Mark was Sales and Marketing Director of Zytronic Displays Limited from 2002 until his appointment as its Managing Director in February 2006. On 1 June 2007 Mark was appointed to the Board and promoted to Chief Executive on 21 January 2008.

DENIS GERALD WILSON MULLAN, B.SC, FCA
(D.O.B. 08/02/54)
FINANCE DIRECTOR

Denis was formerly a partner in Ernst & Young LLP, specialising in corporate finance. He was based successively in its offices in London, Newcastle-upon-Tyne and finally Bristol. While based in Ernst & Young's Newcastle-upon-Tyne office, he led its work on the demerger of Zytronic Displays Limited in June 2000 and the subsequent admission to AIM of Zytronic plc in July 2000. Shortly thereafter he transferred to Ernst & Young's Bristol office, at which time his formal advisory role to the Group ceased. He joined the Group in August 2003.

TUDOR GRIFFITH DAVIES B.SC
(D.O.B. 02/12/51)[1] [2]
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

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

SIR DAVID ROBERT MACGOWAN CHAPMAN BT., DL, B COMM
(D.O.B. 16/12/41)[1] [2]
INDEPENDENT NON-EXECUTIVE DIRECTOR

Sir David is a former Director of Northern Rock plc and the London Stock Exchange and a member of the Greenbury Committee on Directors' Remuneration. He is a Director of a number of regional venture capital funds. A former Chairman of CBI – North East and a First Vice President of Merrill Lynch International Bank, Sir David is currently a consultant with UBS Wealth Management (UK) Limited. Sir David is Chairman of the remuneration committee.

DAVID ERIC BANKS MA (CANTAB), FCA
(D.O.B. 13/08/53)[2]
NON-EXECUTIVE DIRECTOR AND DEPUTY CHAIRMAN

David held a variety of positions in industry at Director level before forming David Banks Associates, which provides temporary and part time assistance in financial supervision and management. He was appointed Finance Director of Zytronic plc in June 2000, prior to its flotation, and became a Non-executive Director with effect from 1 September 2003 following the appointment of Denis Mullan to that role. David is Finance Director of Romag Holdings plc and a Non-executive Director of Castle Support Services plc. He is Chairman of the Group's trading subsidiary, Zytronic Displays Limited.

[1] Member of audit committee.

[2] Member of remuneration committee.

All of the Directors served throughout the financial year.

CORPORATE INFORMATION

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DIRECTORS' REPORT

The Directors present their report and financial statements for the year ended 30 September 2009.

BUSINESS REVIEW

Details of developments and the progress of the Group are contained within this Directors' report as well as in the Chairman's statement and Business review.

PRINCIPAL ACTIVITIES

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

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

COMPETITIVE ADVANTAGES

The Group's competitive advantages are based upon both the patented technology relating to the operation of the touch sensors and the lamination techniques and processes, built up over 40 years of operations, which are a feature of all the Group's products. These advantages allow the Group to produce products which have optical clarity and ruggedness and can be customised to include individual features for customers, including privacy filters and anti-reflective and anti-glare properties. In the case of touch sensors, these advantages also result in the significant ability for them to be used by bare fingers and gloved hands and result in them not experiencing positional drift and therefore not requiring periodic re-calibration.

The growth of the Group and its future prospects come from the exploitation of this relatively new touch sensor technology. Differing adaptations of this patented technology have resulted in four different product groups being developed: ZYTOUCH touch sensors and keypads; ZYPOS, and its derivative ZYBRID, touch sensors; ZYSWITCH touch-switch sensors; and ZYFILM and ZYPROFILM plastic-based touch sensors. ZYTOUCH, ZYPOS and ZYBRID touch sensors are designed to work in front of LCDs or other electronic devices where optical clarity is paramount. Conversely, the technology has been adapted to produce ZYTOUCH keypads and ZYSWITCH touch-switch sensors which are not required to be transparent.

The Group's Intellectual Property Rights include confidential operations and processes, technology covered by patents and licensed technology, trademarks and copyrights. Over recent years the Group has taken significant steps to register its trademarks.

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 over 85% of all products are directly exported from the UK, with a large proportion of UK sales eventually being exported as well.

The Group has continued the expansion of its worldwide selling operations, expanding its direct salesforce, based at the Group's head office at Blaydon-on-Tyne. In the year it has appointed a distributor in Turkey, a second in Japan and one in north-western USA. Management is continuing to look for suitable appointees to expand the Group's presence worldwide.

BUSINESS RISKS

The main risk to the Group's business is that of advances in competing technology, whereby a new, better touch sensor technology is created. Management is 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.

Another competitive risk arises from 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, as new Asian manufacturers continue to take advantage of the demise of the patents on those technologies. However, price pressure in those markets does 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 in developing the ZYPOS touch sensor. This has enabled the Group to reduce the cost of manufacture and therefore the sales price for ZYPOS touch sensors and is allowing the Group to get into markets that were previously closed to it on price grounds.

DIRECTORS' REPORT CONTINUED

BUSINESS REVIEW CONTINUED

BUSINESS RISKS CONTINUED

Management is also continually reviewing the sources and costs of raw material supplies, the design of the Group's products and the operational processes that are used in the manufacture of all of the Group's products.

A further risk, which is directly within the control of management, is that of managing increases in the overhead base to coincide with the growth in turnover, thereby maintaining the growth in profitability. This is not straightforward when the business is developing new products and manufacturing processes.

A fourth risk is that, as a growing proportion of the Group's sales are denominated in US Dollars and Euros, 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. Note 20 sets out details of the Group's financial risk management policy and financial instruments, including its management of its foreign exchange risk.

Natural hedging is adopted where possible to manage currency risk, whereby goods and services are sourced from Europe and the USA and the liability arises in the respective currencies. This is especially relevant with specialised glass, some electronic components and certain other raw materials.

For the first time since 2003/04, the Board also agreed to the limited use of forward exchange contracts. In October 2008, management took out two US Dollar forward exchange contracts to sell $1m for each of the quarters ending 29 December 2008 and 29 March 2009. Some currency is un-hedged, being dealt with at the spot rate when required. The Group's exposure to foreign exchange movements may also be reduced in the future by undertaking some borrowing in overseas currencies, especially where plant and machinery is sourced from abroad.

The Group does not hold speculative positions against movements in foreign currencies or interest rates.

CAPITAL

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

As part of its capital management the Group monitors its overall level of borrowings and its gearing ratio, which is borrowings net of cash balances divided by shareholders equity, and ensures that it is kept within acceptable bounds. The Group also ensures that it has sufficient committed and unused banking facilities to provide the Directors with comfort on the Group's foreseeable needs and its liquidity position.

No changes were made to these objectives, policies or processes during the years ended 30 September 2008 and 2009.

KEY PERFORMANCE INDICATORS ("KPIs")

The KPIs for the business are primarily financial.

The current KPIs consist of setting targets for and monitoring the level and growth of sales; improving the gross profit margin; and controlling the level of overheads. The Directors set targets for operating management in terms of sales growth and margin improvement. The actual performance of the Group against each of these KPIs is set out in the Chairman's statement and Business review.

In addition, the Directors review an "activity monitor" which the sales team uses to record significant sales opportunities, the key dates in the development of each sale's prospect with the customer, volumes and values of the opportunities and expected production commencement dates.

The Directors have not developed KPIs relating to environmental matters, the Group's employees, or social and community issues.

The Directors maintain a close watch on the level and competitiveness of wages paid to factory staff and the market level of staff salaries, to ensure that the Group is not at a disadvantage when seeking to recruit or to retain staff. The Group also uses share option schemes to incentivise employees. The Remuneration report summarises the policies relating to executive management.

RESULTS AND DIVIDENDS

The consolidated income statement is set out on page 30. The Group profit after taxation amounted to £1.7m (2008: £1.1m). The Directors propose the payment of a final dividend of 3.8p per share (2008: 3.0p). Following the dividend of 1.2p per share paid in June 2009, this will bring the total dividend for the year to 5.0p per share (2008: 4.0p).

DIRECTORS

The Directors of the Company are shown on pages 14 and 15. 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 FINANCIAL STATEMENTS

The Directors are responsible for preparing the annual report and the Group 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 financial statements unless they are satisfied that they present fairly the financial position of the Group and the financial performance and cashflows of the Group for that period. In preparing those financial statements the Directors are required to:

- 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;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and accounting estimates that are reasonable and prudent.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, enabling them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the 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 AUDITORS

The Directors who were members of the Board at the time of approving the Directors' report are listed on pages 14 and 15. Having made enquiries of fellow Directors and of the Company's auditors, 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 auditors in connection with preparing their report) of which the Company's auditors are 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 auditors are aware of that information.

SIGNIFICANT INTERESTS IN SHARES

On 14 December 2009, the following had interests in the ordinary shares of the Company:

Shareholders	Number of shares	Percentage holding
SIS SEGA Intersettle AG/Omnibus	3,194,222	21.8%
Axa S.A. (Framlington Investment Management Limited)	2,924,091	19.9%
John Kennair, MBE – Chairman (beneficial and non-beneficial)	1,364,928	9.3%
Schroder Investment Management	1,158,500	7.9%
Montanaro Group Funds	830,332	5.7%
Saracen Investment Funds – Growth Fund	823,289	5.0%
Williams de Broe	585,081	4.0%

DIRECTORS' REPORT CONTINUED

CREDITOR PAYMENT POLICY AND PRACTICE

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with. At 30 September 2009, the Company had an average of 30 days' (2008: 30 days') purchases outstanding in trade creditors.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group did not make any political or charitable contributions during the year (2008: £Nil).

SPECIAL BUSINESS

A resolution will be proposed at the forthcoming Annual General Meeting to renew the existing authority of the Directors, last conferred by a resolution passed at the Annual General Meeting held in 2009, to allot unissued ordinary shares of the Company. The authority (special resolution 1 in the Notice of Annual General Meeting) will extend until the Annual General Meeting held in 2011 and is in respect of one-third of the Company's issued share capital.

The Directors consider it advisable that they continue to have power to make allotments of ordinary shares of the Company for cash without reference to the statutory pre-emption rights, up to a maximum of 733,706 ordinary shares, being 5% of the issued ordinary share capital of the Company at 30 September 2009. The authority (special resolution 2 in the Notice of Annual General Meeting) will extend until the Annual General Meeting held in 2011 and also would enable the Directors to implement a rights issue.

In addition, the Directors consider it advisable that the Company has the authority to make market purchases of its own shares up to a maximum of 1,467,412 ordinary shares of the Company, being 10% of the issued ordinary share capital. The authority (special resolution 3 in the Notice of Annual General Meeting) will extend until the Annual General Meeting held in 2011. The power conferred by this authority would only be used after careful consideration by the Directors, having taken into account market conditions prevailing at the time, the investment needs of the Company, its opportunities for expansion and its overall financial position. The authority would only be exercised by the Directors if they considered it to be in the best interests of shareholders generally and if the purchase(s) could be expected to result in an increase in EPS.

AUDITORS

A resolution to re-appoint Ernst & Young LLP as the Company's auditors will be put to the shareholders at the forthcoming Annual General Meeting.

By order of the Board

DENIS MULLAN, B.SC, FCA
COMPANY SECRETARY
16 December 2009

CORPORATE GOVERNANCE

As an AIM listed company, Zytronic is not obliged to comply with the revised Combined Code published in June 2008 (the "Combined Code") but instead uses its provisions as a guide, but only as considered appropriate to the circumstances of the Company.

The Company is committed to high standards of corporate governance. The Directors consider that, except for the matters noted below, the Company has, throughout the year, been in full compliance with the provisions set out in Section 1 of the Combined Code.

- A4.1 – For reasons explained below, the Company does not have a separate nominations committee.
- A6 – The Board has not undertaken a formal evaluation of its own performance and that of its committees and individual members.
- A7.2 – The Non-executive Directors have not been appointed for a specific term, but their contracts are terminable with six months' notice.

In view of the size and structure of the Group, the Board does not believe that these exceptions had any detrimental effect on the control environment and corporate governance.

THE WORKINGS OF THE BOARD AND ITS COMMITTEES

THE BOARD

Throughout the year, John Kennair, MBE, the Chairman, Mark Cambridge, the Chief Executive, Denis Mullan, the Finance Director, Tudor Davies and Sir David Chapman, Bt., the two Independent Non-executive Directors and David Banks, a Non-executive Director and Deputy Chairman, were members of the Board. David Banks is not considered to be independent because he was the Finance Director of the Group until August 2003.

The Non-executive Directors demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which are vital to the success of the Group.

The Board normally meets at least five times per year. Its direct responsibilities include setting annual budgets, 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, Chief Executive, Finance Director and individual Non-executive Directors. The Non-executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered.

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 Company's expense.

The standing committees established by the Board are the remuneration committee and 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 re-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, was as follows:

Directors	Number of meetings	Attendance
John Kennair, MBE	5	5
Mark Cambridge	5	5
Denis Mullan	5	5
Tudor Davies	5	5
Sir David Chapman, Bt.	5	5
David Banks	5	5

CORPORATE GOVERNANCE CONTINUED

THE WORKINGS OF THE BOARD AND ITS COMMITTEES CONTINUED

REMUNERATION COMMITTEE

The remuneration committee is chaired by Sir David Chapman, Bt., an Independent Non-executive Director. Of the other two members, Tudor Davies is the Senior Independent Non-executive Director and David Banks is a Non-independent Non-executive Director. The committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost, including the remuneration of subsidiary Directors. The committee determines the contract terms, remuneration and other benefits for each of the Executive Directors, including performance related bonus schemes, pension rights and compensation payments. Further details of the Company's policies on remuneration, service contracts and compensation payments are given in the Remuneration report. The Chairman's remuneration is determined by a sub-committee comprising only the two Independent Non-executive Directors.

The number of meetings of the committee, and the attendance of members, was as follows:

Committee members	Number of meetings	Attendance
Sir David Chapman, Bt.	1	1
Tudor Davies	1	1
David Banks	1	1

AUDIT COMMITTEE

The audit committee is chaired by Tudor Davies. He and the other member, Sir David Chapman, Bt., are both Independent Non-executive Directors. Meetings are also attended, by invitation, by the other Directors. The committee meets at least twice a year. The committee provides a forum for reporting by the Group's external auditors.

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

The audit committee keeps under review the cost effectiveness of the auditors. It also reviews the extent of the non-audit services provided by the auditors and reviews with them their 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 number of meetings of the committee, and the attendance of members, was as follows:

Committee members	Number of meetings	Attendance
Tudor Davies	3	3
Sir David Chapman, Bt.	3	3

RELATIONS WITH SHAREHOLDERS

Communication with shareholders is given high priority. There is regular dialogue with major and/or institutional shareholders including presentations after the Company's announcements of the half year and full year results in May and December respectively. Presentations are also made to analysts and journalists at those times to present the Group's results and report on developments. This assists with the promotion of knowledge of the Group in the investment marketplace and with shareholders. The financial statements include a review of the business and future developments. These financial statements and other information relating to the Group are also available on the Group's website www.zytronic.co.uk.

Following the half year and year end presentations of results, the Executive Directors report to the Board on the feedback received from journalists, analysts and shareholders. In addition, the Company's financial PR advisers also produce 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 chairmen of the audit and remuneration committees are available at the Annual General Meeting to answer questions. Details of resolutions to be proposed at the Annual General Meeting on 11 February 2010 can be found in the Notice of Annual General Meeting on pages 67 and 68.

In addition, the Senior Independent Director is available to shareholders if they have any concerns which contact through the normal channels of the Chairman, Chief Executive or the 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 does not need to comply with Code provision C2.1 regarding the Directors giving a summary of the process applied by the Board in reviewing the effectiveness of the system of internal control. Instead, the Directors set out below 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 them 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 updated forecasts are prepared as appropriate. The reports reviewed by the Board include reports on operational as well as financial issues.

Capital and development expenditure is regulated by a budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board for approval. Reviews are carried out after the purchase is complete. The Board requires management to explain any major deviations from authorised capital proposals and to seek further sanction from the Board.

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

The Board has reviewed the need for an internal audit function and concluded that this is not currently necessary in view of the small size of the Group and the close supervision by senior management of its day-to-day operations. The Board will continue to keep this under review.

The Group has a whistle-blowing policy and procedures to encourage staff to contact the Deputy Chairman if they need to raise matters of concerns 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 Business review on pages 8 to 13. The financial position of the Group, its cashflows, liquidity position and borrowing facilities are described within the Business review also. In addition, note 20 to the financial statements includes the Group's objectives, policies, its financial risk management objectives, 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 despite the current uncertain economic outlook.

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

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 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 its trading subsidiary, Zytronic Displays Limited. The committee is composed of the two Independent Non-executive Directors and the Non-independent Non-executive Director. In determining remuneration for the year, the committee has given full consideration to the requirements of the Combined Code.

REMUNERATION POLICY

The remuneration of Executive Directors is determined by the committee and the remuneration of Non-executive Directors is approved by the full Board of Directors. The remuneration of the Chairman is determined by the two Independent Non-executive 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 the provision of a company car, or appropriate allowance, health insurance and contributions to a Group personal pension scheme. Details of emoluments for the Directors of Zytronic plc are set out on page 25.

ANNUAL BONUS

A discretionary bonus may be awarded by the remuneration committee to reward exceptional individual performance.

SHARE OPTIONS AND INCENTIVE SCHEMES

The Company believes that share ownership by Executive Directors and employees strengthens the link between their personal interests and those of the Company and the shareholders.

The Company has executive share option and incentive schemes, which are designed to promote long term improvement in the performance of the Group, sustained increase in shareholder value and clear linkage between executive reward and the Group's performance. The share options and incentive schemes of the Directors of Zytronic plc are set out on page 26.

It will normally be the case that, on the option holder ceasing employment with the Group, the options will be terminated. In some circumstances, the Board may have discretion to waive this where the past contribution to the business by the option holder justifies it.

The Company also has a sharesave option scheme. Membership is open to all eligible employees, including Directors, who have more than three months' employment with the Group at the time options are offered under a scheme. In compliance with the Combined Code the Board has agreed that it will not grant share options to Non-executive Directors.

SERVICE CONTRACTS

John Kennair, MBE, Denis Mullan and Mark Cambridge all 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

Emoluments of the Directors for the year ended 30 September 2009 are:

	Salary £'000	Fees £'000	Benefits £'000	Bonus £'000	**Total emoluments* 2009 £'000**	Total emoluments* 2008 £'000
Chairman						
John Kennair, MBE	88	—	—	—	**88**	85
Executive						
Mark Cambridge	100	—	14	5	**119**	107
Denis Mullan	86	—	9	4	**99**	98
Non-executive						
Tudor Davies	—	27	—	—	**27**	23
Sir David Chapman, Bt.	—	27	—	—	**27**	23
David Banks**	—	37	—	—	**37**	33
	274	91	23	9	**397**	369

* Excluding pension contributions.

** Fees are paid to David Banks Associates, a partnership in which David Banks is a partner.

PENSION CONTRIBUTIONS

During the year, the Group made annual pension contributions for Mark Cambridge and Denis Mullan, Executive Directors, to a 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	**2009 £'000**	2008 £'000
Mark Cambridge	**3**	3
Denis Mullan	**3**	2
Total	**6**	5

DIRECTORS' SHAREHOLDINGS

Beneficial interests of the Directors in the shares of the Company, including those of their immediate families, were:

		30 September	
		2009 Number	2008 Number
John Kennair, MBE	– beneficial	**1,058,065**	1,033,065
	– as trustee	**129,643**	129,643
Mark Cambridge		**36,113**	36,113
Denis Mullan		**140,000**	130,000
Tudor Davies		**90,909**	90,909
Sir David Chapman, Bt.		**40,000**	40,000
David Banks		**14,545**	14,545

There has been no change in Directors' shareholdings since 30 September 2009.

REMUNERATION REPORT CONTINUED

DIRECTORS' SHARE OPTIONS

Enterprise Management Incentive Scheme	30 September 2008 Number	Granted during year Number	Exercised during year Number	**30 September 2009 Number**	Exercise dates	Option price
Denis Mullan	100,000	—	—	**100,000**	16 March 2006 to 15 March 2014	70.0p
Denis Mullan	17,182	—	—	**17,182**	18 January 2008 to 17 January 2015	145.5p
Denis Mullan	2,300	—	—	**2,300**	28 February 2011 to 27 February 2018	216.5p
Mark Cambridge	17,182	—	—	**17,182**	18 January 2008 to 17 January 2015	145.5p
Mark Cambridge	27,250	—	—	**27,250**	11 January 2009 to 10 January 2016	274.5p

Unapproved Scheme	30 September 2008 Number	Granted during year Number	Exercised during year Number	**30 September 2009 Number**	Exercise dates	Option price
Denis Mullan	12,700	—	—	**12,700**	28 February 2011 to 27 February 2018	216.5p

DIRECTOR'S SHARE INCENTIVE SCHEME

SHARE INCENTIVE SCHEME FOR MARK CAMBRIDGE, CHIEF EXECUTIVE

The remuneration committee agreed an incentive award scheme for Mark Cambridge, Chief Executive, to offer him up to 200,000 shares at a price of 25p per share to vest based on specified performance criteria.

These are measured by an EPS, calculated on the audited pre-tax profit and a standard 28% tax charge. The EPS criteria are shown below:

	Performance criteria			
	Lower limit		Upper limit	
	EPS Pence	Shares to vest	EPS Pence	Shares to vest
Year to 30 September 2009 (year 1)	13.5	80,000	15.0	100,000
Year to 30 September 2010 (year 2)	18.3	60,000	22.0	80,000
Year to 30 September 2011 (year 3)	24.5	60,000	24.5	20,000

DIRECTOR'S SHARE INCENTIVE SCHEME CONTINUED

SHARE INCENTIVE SCHEME FOR MARK CAMBRIDGE, CHIEF EXECUTIVE CONTINUED

Vesting is:

- the entitlement to buy, which doesn't disappear once earned;
- pro rata between the upper and lower limits;
- timed on signature of audited accounts with a clean audit report; and
- cumulative, e.g. 200,000 shares can vest in year 3 if the upper limit is reached, even if the lower limits have not been achieved in the previous years.

If the 24.5p EPS criteria is not achieved in year 3, there will still be an opportunity for shares to vest in year 4 (to 30 September 2012) or year 5 (to 30 September 2013) on the achievement of 24.5p EPS on the basis that, on achievement, the maximum total entitlement reduces to 125,000 shares or 50,000 shares respectively, or the number of shares already vested if that is greater.

Vesting will also take place in the event of a successful takeover and will be based on the takeover price, with full vesting at a share price of 500p and pro rata vesting down to a price of 300p as follows:

- 1,000 shares for each 1p above 300p up to 500p until 30 September 2011, reduced for any shares which have already vested;
- 625 shares for each 1p above 300p up to 500p between 1 October 2011 and 30 September 2012, reduced for any shares which have already vested; and
- 250 shares for each 1p above 300p up to 500p between 1 October 2012 and 30 September 2013, reduced for any shares which have already vested.

During the year to 30 September 2009, the highest share price was 185p and the lowest share price was 84p. The market price of the shares at 30 September 2009 was 148p.

DIRECTORS' INTERESTS IN MATERIAL CONTRACTS

As noted on page 25, the Company has paid Directors' fees to David Banks Associates, a partnership in which David Banks is a partner. At 30 September 2009 the amount due to David Banks Associates was £3,546 (2008: £3,231).

With this exception, 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.

GROUP ACCOUNTS

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF ZYTRONIC PLC

We have audited the Group financial statements of Zytronic plc for the year ended 30 September 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Cashflow statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Sections 495 and 496 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 auditors' 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.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Director's Responsibilities Statement set out on page 19, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 September 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

- 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.

OTHER MATTER

We have reported separately on the parent company financial statements of Zytronic plc for the year ended 30 September 2009.

DEBBIE O'HANLON (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF ERNST & YOUNG LLP STATUTORY AUDITOR
NEWCASTLE-UPON-TYNE
16 December 2009

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2009

	Notes	**2009 £'000**	2008 £'000
Group revenue	2	**15,921**	14,717
Cost of sales		**10,514**	9,978
Gross profit		**5,407**	4,739
Distribution costs		**183**	217
Administration expenses		**2,850**	2,675
Group trading profit	3	**2,374**	1,847
Other operating income		**20**	27
Group operating profit from continuing operations		**2,394**	1,874
Finance costs	5(a)	**(98)**	(146)
Finance revenue	5(b)	**4**	12
Profit from continuing operations		**2,300**	1,740
Tax expense	6	**(593)**	(677)
Profit for the year from continuing operations		**1,707**	1,063
Earnings per share			
Earnings per share – basic	8	**11.6p**	7.3p
Earnings per share – diluted	8	**11.5p**	7.2p

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 30 SEPTEMBER 2009

	2009 £'000	2008 £'000
Income and expense recognised directly in equity		
Current tax recognised directly in equity	**—**	5
Deferred tax recognised directly in equity	**(4)**	(7)
Net expense recognised directly in equity	**(4)**	(2)
Profit for the year	**1,707**	1,063
Total recognised income and expense for the year	**1,703**	1,061

CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2009

	Notes	2009 £'000	2008 £'000
Assets			
Non-current assets			
Intangible assets	9	**1,974**	2,058
Property, plant and equipment	10	**8,375**	5,315
Trade and other receivables	12(b)	**210**	210
		10,559	7,583
Current assets			
Inventories	11	**2,503**	2,496
Trade and other receivables	12(a)	**3,110**	3,039
Cash and short term deposits	13	**739**	1,260
		6,352	6,795
Total assets		**16,911**	14,378
Equity and liabilities			
Current liabilities			
Trade and other payables	14	**1,306**	1,480
Financial liabilities	15	**1,442**	1,182
Accruals	14	**574**	533
Taxation liabilities		**300**	341
		3,622	3,536
Non-current liabilities			
Financial liabilities	16	**2,428**	1,088
Deferred tax liabilities (net)	19	**820**	817
Government grants		**43**	55
		3,291	1,960
Total liabilities		**6,913**	5,496
Net assets		**9,998**	8,882
Capital and reserves			
Equity share capital	21	**147**	147
Share premium	22	**6,479**	6,479
Revenue reserve	22	**3,372**	2,256
Total equity		**9,998**	8,882

These financial statements have been approved by the Board of Directors on 8 December 2009 and signed on their behalf by:

JOHN KENNAIR, MBE
CHAIRMAN
16 December 2009

DENIS MULLAN, B.SC, FCA
FINANCE DIRECTOR

CONSOLIDATED CASHFLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2009

	Notes	2009 £'000	2008 £'000
Operating activities			
Profit before tax		**2,300**	1,740
Net interest expense		**94**	134
Depreciation of property, plant and equipment		**613**	565
Amortisation of intangible assets		**307**	310
Amortisation of government grant		**(12)**	(5)
Share-based payments		**29**	34
Increase in inventories		**(7)**	(668)
Increase in trade and other receivables		**(59)**	(301)
(Decrease)/increase in trade and other payables		**(137)**	166
Cash generated from operations		**3,128**	1,975
Taxation (paid)/repayments		**(646)**	13
Net cashflow from operating activities		**2,482**	1,988
Investing activities			
Interest received		**4**	12
Receipt of government grant		**—**	60
Purchases of property, plant and equipment	10	**(3,673)**	(605)
Payments to acquire intangible assets		**(223)**	(246)
Net cashflow from investing activities		**(3,892)**	(779)
Financing activities			
Interest paid		**(94)**	(141)
Dividends paid to equity shareholders of the parent		**(616)**	(440)
Proceeds from share issues re options		**—**	6
New borrowings		**2,217**	438
Repayment of borrowings		**(163)**	(96)
Repayment of capital element of hire purchase contracts		**(476)**	(465)
Net cashflow from financing activities		**868**	(698)
(Decrease)/increase in cash and cash equivalents		**(542)**	511
Cash and cash equivalents at the beginning of the year	13	**651**	140
Cash and cash equivalents at the year end	13	**109**	651

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2009

1. ACCOUNTING POLICIES

(A) STATEMENT OF COMPLIANCE

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) JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with generally accepted accounting principles requires the Directors to make judgements 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 amount, 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, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cashflows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cashflows.

DEVELOPMENT COSTS

Development costs are capitalised in accordance with the accounting policy given below. 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.

(C) 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.

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Acquisitions are accounted for using the purchase method. Goodwill arising on acquisitions is initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, is capitalised and classified as an asset on the balance sheet, and is not amortised. After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated.

When subsidiaries are sold, the difference between the selling price and the net assets plus unimpaired goodwill is recognised in the consolidated income statement.

(D) FOREIGN CURRENCIES

The consolidated financial statements are presented in Sterling, which is the Company'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 balance sheet date. All differences are taken to the income statement. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2009

1. ACCOUNTING POLICIES CONTINUED

(E) 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 property	– 50 years
Long leasehold property	– over the term of the lease
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 income statement 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 income statement in those expense categories consistent with the function of the impaired asset.

(F) 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 income statement in the expense category consistent with the function of the intangible asset. The estimated useful lives are as follows:

Licences	– period of licensing agreements (10 and 17 years)
Capitalised development expenditure	– 4 to 10 years

(G) RESEARCH AND DEVELOPMENT COSTS

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

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

(H) 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 and consumables	– 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.

(I) TRADE AND OTHER RECEIVABLES

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

1. ACCOUNTING POLICIES CONTINUED

(J) CASH AND CASH EQUIVALENTS

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an initial maturity of three months or less. Bank overdrafts are shown within financial liabilities, in current liabilities on the balance sheet. For the purpose of the cashflow statement, cash and cash equivalents comprise these balances, net of outstanding bank overdrafts.

(K) 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 income statement when the liabilities are derecognised, as well as through the amortisation process.

Borrowing costs are recognised as an expense when incurred.

(L) 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, 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 income statement.

(M) PENSION SCHEME

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

(N) LEASES

GROUP AS A LESSEE

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and payments are recognised as an expense in the income statement on a straight line basis over the lease term.

(O) SHARE-BASED PAYMENT TRANSACTIONS

EQUITY-SETTLED TRANSACTIONS

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2009

1. ACCOUNTING POLICIES CONTINUED

(O) SHARE-BASED PAYMENT TRANSACTIONS CONTINUED

EQUITY-SETTLED TRANSACTIONS CONTINUED

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

IFRS 2 Share-based Payments has only been applied to grants of equity instruments after 7 November 2002 that had not vested at 1 October 2006. For awards granted before 7 November 2002, the Group recognises only the intrinsic value or cost of these potential awards as an expense. This is accrued over the performance period of each plan based on the intrinsic value of the equity-settled awards.

(P) REVENUE RECOGNITION

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

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

(Q) GOVERNMENT GRANTS

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 income statement over the life of the projects to which they relate.

(R) ROYALTY PAYMENTS

Under the terms of its patent licence, Zytronic Displays Limited pays royalties to the patent owner on the value of the touch sensors which it sells. An agreed annual payment is made by monthly instalment under the licence.

In the event that the actual quarterly royalties due from Zytronic Displays Limited exceed the payments on account for that quarter, Zytronic Displays Limited pays the balance to the patent owner.

In the event that the payments on account for that quarter exceed the actual royalties due to that date, the excess payment is treated by Zytronic Displays Limited as a prepayment of royalties that will become due in the future. Similarly, should the annual agreed payment be in excess of the royalties due for the year, the difference is rolled over and deducted from future years' royalty calculations.

Management reviews its forecasts of future sales to determine whether any impairment has occurred which might affect the carrying value of the prepayment.

From 1 January 2008, and for each subsequent calendar year, the annual payment will increase either by the greater of RPI or to the level of the previous year's actual royalties.

1. ACCOUNTING POLICIES CONTINUED

(S) 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 taxation assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

(T) NEW STANDARDS AND INTERPRETATIONS NOT APPLIED

The International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") have issued the following standards and interpretations with an effective date after the date of these financial statements:

IASB		Effective date
IFRS 1 and IAS 27	Amendments to IFRS 1 and IAS 27 Amendments for Determining the Cost of an Investment in Separate Financial Statements	1 January 2009
IFRS 2	Amendment to IFRS 2 Vesting Conditions and Cancellations	1 January 2009
IFRS 3	Business Combinations (revised January 2008)	1 July 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1	Presentation of Financial Statements (revised September 2007)	1 January 2009
IAS 23	Borrowing Costs (revised March 2007)	1 January 2009
IAS 27	Consolidated and Separate Financial Statements (revised January 2008)	1 July 2009
IAS 32 and IAS 1	Amendments to IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
IAS 39	Amendment to IAS 39 Eligible Hedged Items	1 July 2009
	Improvements to IFRS	Various effective dates

IFRIC		
IFRIC 9	Reassessment of Embedded Derivatives (revised)	30 June 2009
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009
IFRIC 17	Distribution of Non-cash Assets to Owners	1 July 2009
IFRIC 18	Transfer of Assets from Customers	1 July 2009

IAS 23 has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional provisions in the standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date of 1 January 2009. No changes will be made for borrowing costs incurred prior to this date that have been expensed.

Whilst the revised IAS 1 will have no impact on the measurement of the Group's results or net assets, it is likely to result in certain changes in the presentation of the Group's financial statements from 2009 onwards.

IFRS 8 requires disclosure based on information presented to the Board. Whilst this is not expected to change the business segments about which information is given, the secondary segment information will be replaced by group-wide analysis of revenues and non-current assets by major geographic area.

There is no significant impact from the standards not applied.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2009

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.

The primary segment reporting format is determined to be this single business segment as the Group's risks and rates of return are affected predominantly by differences in the products and services provided.

The Group has one reportable business segment comprising the development and manufacture of customised optical filters to enhance electronic display performance. Products in this reportable segment include touch sensors, filters and other laminated products as described on page 3. All revenue, profits or losses before tax and net assets are attributable to this reportable business segment.

Secondary segment information is reported geographically. 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 2009 £'000	**%**	30 September 2008 £'000	%
Sale of goods	– UK	**2,238**	**14**	3,034	21
	– Americas	**3,018**	**19**	3,295	22
	– EMEA (excl. UK)	**7,344**	**46**	6,083	41
	– APAC	**3,321**	**21**	2,305	16
Revenue		**15,921**	**100**	14,717	100
Finance revenue		**4**		12	
Total revenue		**15,925**		14,729	

It is not uncommon for global customers to alter the geographic destination of goods from one year to the next. In FY2007, for example, one customer announced the closure of its North American operations and the scaling back of its UK operations in favour of shifting more production to Hungary and China. The reduction in sales in the Americas in FY2009 partly arises from this type of customer re-allocation. It does not reflect a loss of customers.

3. GROUP OPERATING PROFIT

This is stated after charging/(crediting):

	30 September 2009 £'000	30 September 2008 £'000
R&D costs	**291**	224
Amortisation of development expenditure	**135**	135
	426	359
Auditors' remuneration – in respect of audit services*	**48**	59
– in respect of taxation services	**19**	39
Depreciation of owned assets	**456**	423
Depreciation of assets held under HP agreements	**157**	142
Amortisation of licences	**123**	120
Cost of inventories recognised as an expense including:	**5,300**	5,057
– write-down of inventories to net realisable value	**27**	116
– reversals of impairments in inventories**	**(69)**	(87)
Hire of plant and machinery	**2**	7
Operating lease rentals – minimum lease payments	**324**	315
Amortisation of capital grants	**(12)**	(5)
Net foreign currency differences	**153**	(56)
Rental income	**(9)**	(22)

* £36,000 of this relates to the Company (2008: £34,000).

** The reversal of impairments in inventories has arisen as a result of previously impaired stock being utilised.

4. STAFF COSTS (INCLUDING DIRECTORS)

	30 September 2009 £'000	30 September 2008 £'000
Wages and salaries	**3,736**	3,872
Social security costs	**346**	352
Other pension costs	**48**	43
	4,130	4,267

Included in wages and salaries is a total expense of share-based payments of £29,000 (2008: £34,000) all of which arises from transactions accounted for as equity-settled share-based payment transactions.

The total of Directors' emoluments is £397,000 (2008: £369,000). The aggregate value of contributions paid to money purchase pension schemes includes £5,600 (2008: £5,100) in respect of two Directors (2008: two).

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

	30 September 2009 Number	30 September 2008 Number
Production	**156**	167
Administration and sales	**37**	38
	193	205

The information required by Schedule 5 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 is contained in the Remuneration report under Directors' emoluments, pension contributions, Directors' shareholdings and Directors' share options.

5. FINANCE COSTS (PAYABLE)/REVENUE RECEIVABLE

(A) FINANCE COSTS

Interest payable	**30 September 2009 £'000**	30 September 2008 £'000
Finance charges payable under HP agreements	**(31)**	(67)
Bank loans and overdrafts	**(67)**	(79)
	(98)	(146)

(B) FINANCE REVENUE

Interest receivable	**30 September 2009 £'000**	30 September 2008 £'000
Bank interest receivable	**4**	12

6. TAXATION

	30 September 2009 £'000	30 September 2008 £'000
Current tax		
UK corporation tax	**(602)**	(346)
Corporation tax over-provided in prior years	**10**	—
Total current tax charge	**(592)**	(346)
Deferred tax		
Effect of change in tax rates and legislation on industrial buildings	**—**	(174)
Origination and reversal of temporary differences	**(1)**	(157)
Total deferred tax	**(1)**	(331)
Tax charge in the income statement	**(593)**	(677)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2009

6. TAXATION CONTINUED

TAX RELATING TO ITEMS CHARGED OR CREDITED TO EQUITY

	30 September 2009 £'000	30 September 2008 £'000
Current tax		
Tax on share-based payment	**—**	5
Total current tax credit	**—**	5
Deferred tax		
Tax on share-based payment	**(4)**	(7)
Total deferred tax charge	**(4)**	(7)
Tax charge in the statement of recognised income and expense	**(4)**	(2)

RECONCILIATION OF THE TOTAL TAX CHARGE

The effective tax rate of the tax expense in the income statement for the year is 26% compared with the standard rate of corporation tax in the UK of 28% (2008: 29%). The differences are reconciled below:

	30 September 2009 £'000	30 September 2008 £'000
Accounting profit before tax	**2,300**	1,740
Accounting profit multiplied by the UK standard rate of corporation tax of 28% (2008: 29%)	**644**	505
Effects of:		
Expenses not deductible for tax purposes	**14**	24
Depreciation in respect of non-qualifying items	**40**	37
Enhanced tax reliefs	**(95)**	(64)
Effect of changes in legislation on industrial buildings	**—**	204
Difference in tax rates	**—**	(29)
Tax over-provided in prior years	**(10)**	—
Total tax expense reported in the income statement	**593**	677

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

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

Under HMRC's R&D tax credit scheme, the Group will receive an annual uplift of 75% on qualifying R&D expenditure for tax purposes. Until the financial year 2006, where R&D expenditure has been capitalised, the benefit of this uplift is only recognised as the asset is amortised. The unrecognised element, relating to the year ended 30 September 2005 and prior, at 30 September 2009 was £80,000 (2008: £100,000). Following changes to HMRC's rules which took effect for financial year 2006, the uplift on expenditure which has been capitalised in any year is recognised in that year.

The "gain" on the exercise of share options, being the difference between the grant/exercise price and the market value at the time of exercise, is allowable as a taxable deduction from profits although it is not reflected within the income statement. These gains will arise in future years but their timing and amount is uncertain.

There are no tax losses carried forward at 30 September 2009 (2008: £Nil).

7. DIVIDENDS

The Directors propose the payment of a final dividend of 3.8p per share (2008: 3.0p), payable on 26 February 2010 to shareholders on the Register on 12 February 2010. This dividend has not been accrued in these financial statements. The dividend payment will amount to some £560,000.

	30 September 2009 £'000	30 September 2008 £'000
Ordinary dividends on equity shares		
Final dividend of 2.0p per ordinary share paid on 16 March 2008	**—**	293
Interim dividend of 1.0p per ordinary share paid on 29 June 2008	**—**	147
Final dividend of 3.0p per ordinary share paid on 9 March 2009	**440**	—
Interim dividend of 1.2p per ordinary share paid on 26 June 2009	**176**	—
	616	440

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 2009 £'000	**Weighted average number of shares 30 September 2009 Thousands**	**EPS 30 September 2009 Pence**	Earnings 30 September 2008 £'000	Weighted average number of shares 30 September 2008 Thousands	EPS 30 September 2008 Pence
Profit on ordinary activities after taxation	**1,707**	**14,674**	**11.6**	1,063	14,667	7.3
Basic EPS	**1,707**	**14,674**	**11.6**	1,063	14,667	7.3

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

	Earnings 30 September 2009 £'000	**Weighted average number of shares 30 September 2009 Thousands**	**EPS 30 September 2009 Pence**	Earnings 30 September 2008 £'000	Weighted average number of shares 30 September 2008 Thousands	EPS 30 September 2008 Pence
Profit on ordinary activities after taxation attributable to ordinary equity holders	**1,707**	**14,674**	**11.6**	1,063	14,667	7.3
Weighted average number of shares under option	**—**	**79**	**(0.1)**	—	110	(0.1)
Diluted EPS	**1,707**	**14,753**	**11.5**	1,063	14,777	7.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2009

9. INTANGIBLE FIXED ASSETS

	Software £'000	Goodwill £'000	Licences £'000	Development expenditure £'000	Total £'000
Cost					
At 30 September 2007	257	235	2,026	1,346	3,864
Additions	27	—	46	173	246
At 30 September 2008	284	235	2,072	1,519	4,110
Additions	43	—	47	133	223
At 30 September 2009	**327**	**235**	**2,119**	**1,652**	**4,333**
Amortisation					
At 30 September 2007	115	—	851	776	1,742
Provided during the year	55	—	120	135	310
At 30 September 2008	170	—	971	911	2,052
Provided during the year	49	—	123	135	307
At 30 September 2009	**219**	**—**	**1,094**	**1,046**	**2,359**
Net book value at 30 September 2009	**108**	**235**	**1,025**	**606**	**1,974**
Net book value at 30 September 2008	114	235	1,101	608	2,058
Net book value at 30 September 2007	142	235	1,175	570	2,122

As from the date of transition to IFRS, goodwill is no longer amortised but is now subject to an annual impairment test.

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 underlying growth in sales revenues, gross profit margins, profitability before tax and cash generation over recent years.

The recoverable amount of goodwill has been determined based on a value in use calculation for the cash-generating unit, using cashflow projections based on financial budgets and forecasts approved by senior management covering a three-year period. Growth has been extrapolated forward from the end of the forecasts, using a growth rate of 3% which reflects the Directors' view of the long term growth rate in the business.

The cashflows for all cash-generating units have been discounted using a discount rate of 10%, based on the Group's weighted average cost of capital.

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

The Directors consider the assumptions used 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 balance sheet comprise:

	Land £'000	Freehold property £'000	Leasehold property £'000	Plant and machinery £'000	Total £'000
Cost					
At 30 September 2007	100	1,388	196	8,333	10,017
Additions	—	111	—	561	672
Disposals	—	—	—	(12)	(12)
At 30 September 2008	100	1,499	196	8,882	10,677
Additions	107	1,461	1,953	152	3,673
Disposals	—	—	—	(1)	(1)
At 30 September 2009	**207**	**2,960**	**2,149**	**9,033**	**14,349**
Depreciation					
At 30 September 2007	—	27	24	4,758	4,809
Provided during the year	—	29	15	521	565
Disposals	—	—	—	(12)	(12)
At 30 September 2008	—	56	39	5,267	5,362
Provided during the year	—	40	28	545	613
Disposals	—	—	—	(1)	(1)
At 30 September 2009	**—**	**96**	**67**	**5,811**	**5,974**
Net book value at 30 September 2009	**207**	**2,864**	**2,082**	**3,222**	**8,375**
Net book value at 30 September 2008	100	1,443	157	3,615	5,315
Net book value at 30 September 2007	100	1,361	172	3,575	5,208

What was previously classified as short leasehold has been reclassified as long leasehold following the acquisition of one of the properties.

On 29 May 2009, the Company acquired the freehold of Haworth Court, one of its factories held under a short term lease. On 4 June 2009 it acquired a 999-year lease on its main factory, the other of its factories held under a short term lease. The total consideration for the two acquisitions was £3.5m, of which £107,000 has been allocated to the cost of land.

Included in the amounts for plant and machinery are the following amounts relating to assets acquired under HP agreements:

	30 September 2009 £'000	30 September 2008 £'000
Cost	**2,241**	2,241
Accumulated depreciation	**692**	535

11. INVENTORIES

	30 September 2009 £'000	30 September 2008 £'000
Raw materials and consumables	**1,566**	1,341
Work in progress	**501**	725
Finished goods	**436**	430
	2,503	2,496

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2009

12. TRADE AND OTHER RECEIVABLES

(A) CURRENT ASSETS

	30 September 2009 £'000	30 September 2008 £'000
Trade receivables	**2,839**	2,599
VAT recoverable	**77**	202
Prepayments	**194**	238
	3,110	3,039

Trade receivables are denominated in the following currencies:

	30 September 2009 £'000	30 September 2008 £'000
Sterling	**1,736**	1,358
US Dollar	**883**	1,145
Euro	**220**	96
	2,839	2,599

Out of the carrying amount of trade receivables of £2.8m (2008: £2.6m), £1.8m (2008: £1.4m) is the amount of debts owed by three major customers. Regular reviews are undertaken on these major customers so as to ascertain no going concern issues with them.

Trade receivables are non-interest bearing and are generally on 30–60 days' terms. They are shown net of a provision for impairment.

As at 30 September 2009, trade receivables at a nominal value of £10,000 (2008: £101,000) were impaired due to poor payment history. Movements in the provision for impairment of trade receivables were as follows:

	£'000
At 30 September 2007	33
Charge for the year	73
Utilised	(5)
At 30 September 2008	101
Charge for the year	6
Utilised	(97)
At 30 September 2009	**10**

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

		Past due but not impaired		
	Neither past due nor impaired	0–3 months £'000	>3 months £'000	Total £'000
2009	**2,072**	**731**	**36**	**2,839**
2008	1,618	874	107	2,599

The good credit quality of trade receivables at 30 September 2009 is reflected in the improved ageing of the year end receivables, in comparison to the prior year, and the reduction of the impairment provision. Credit limits are set for each customer, using Dun & Bradstreet credit reports as appropriate, or pro-forma invoices are raised, or cash up-front 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.

(B) NON-CURRENT ASSETS

	30 September 2009 £'000	30 September 2008 £'000
Royalty prepayments	**210**	210

13. CASH AND SHORT TERM DEPOSITS

	30 September 2009 £'000	30 September 2008 £'000
Cash at bank and in hand	**739**	1,260

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

At 30 September 2009, the Group had available £2.4m (2008: £2.9m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. £0.4m (2008: £0.9m) of these facilities fall for review within one year and the remainder is available until 30 June 2012.

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

	30 September 2009 £'000	30 September 2008 £'000
Cash at bank and in hand	**739**	1,260
Bank overdraft	**(630)**	(609)
	109	651

The fair value of cash and cash equivalents is £109,000 (2008: £651,000).

14. TRADE AND OTHER PAYABLES

	30 September 2009 £'000	30 September 2008 £'000
Trade payables	**1,191**	1,371
Other taxes and social security costs	**115**	109
	1,306	1,480
Accruals	**574**	533
	1,880	2,013

15. FINANCIAL LIABILITIES – CURRENT

	30 September 2009 £'000	30 September 2008 £'000
Bank loan (note 17a)	**33**	33
Bank loans (note 17b and 17c)	**303**	64
Obligations under HP agreements (notes 17d and 18a)	**476**	476
Bank overdrafts	**630**	609
	1,442	1,182

16. FINANCIAL LIABILITIES – NON-CURRENT

	30 September 2009 £'000	30 September 2008 £'000
Bank loan (note 17a)	**5**	39
Bank loans (note 17b and 17c)	**2,378**	529
Obligations under HP agreements (notes 17c and 18a)	**45**	520
	2,428	1,088

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2009

17. BANK LOANS

(A) CHATTEL MORTGAGE

On 28 September 2004, Zytronic Displays Limited entered into a term loan with Yorkshire Bank which is secured by a chattel mortgage over certain items of plant and machinery. Interest is payable at 1% above that bank's base rate. The loan has been guaranteed by Zytronic plc. The original loan of £250,000, repayable in 36 equal monthly instalments, was paid off in November 2007. On 23 November 2007 an additional amount of £100,000 was borrowed under the terms of this same chattel mortgage, again repayable by 36 equal monthly instalments.

(B) PROPERTY MORTGAGE

On 13 January 2006, Zytronic plc drew down funds under a ten-year mortgage with Lloyds TSB Bank plc under which it borrowed £750,000, repayable by monthly instalments. The loan is secured against its freehold interest in Britannia Court, the freehold factory premises which it acquired in January 2006. Interest is payable at 1.25% above that bank's base rate.

(C) PROPERTY MORTGAGE

On 4 June 2009, Zytronic plc borrowed £2.25m under a ten-year mortgage with Alliance & Leicester Commercial Bank, repayable by monthly instalments. The loan is secured against its freehold interest in Haworth Court and its interest in a 999-year long leasehold on its main factory. Previous to the acquisitions of these interests, the Group occupied these premises on leases expiring in 2019. Interest is payable at 2.5% above three month LIBOR. The balance is shown net of issue costs which are being amortised over the life of the loan.

(D) HP AGREEMENTS

In September 2007, Zytronic Displays Limited put in place six HP agreements with Yorkshire Bank. These agreements provide longer term funding for some of the significant capital expenditure incurred in the refurbishment of Britannia Court and its equipping as a manufacturing facility for ZYPOS and other touch sensors. The net amounts advanced under those HP agreements total £1.123m and the term of each is three years. In the year ended 30 September 2008, a further four HP agreements were put in place with Yorkshire Bank to provide the final funding for equipping the new manufacturing facility. These agreements total £0.338m and are also repayable over three years. All of these HP agreements are guaranteed by Zytronic plc.

18. OBLIGATIONS UNDER HP AGREEMENTS AND LEASES

(A) OBLIGATIONS UNDER HP AGREEMENTS

	30 September 2009 £'000	30 September 2008 £'000
Minimum HP payments:		
Not later than one year	**476**	476
Later than one year and not later than five years	**45**	520
	521	996

The HP contracts at 30 September 2009 attract variable interest which is payable separately on the balance of capital outstanding. As such, the amounts payable at 30 September 2009 do not include a liability for finance charges.

(B) OBLIGATIONS UNDER OPERATING LEASES

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

Group as lessee	**30 September 2009 £'000**	30 September 2008 £'000
Operating leases which expire:		
Not later than one year	**25**	252
Later than one year and not later than five years	**27**	952
Later than five years	**7**	807
	59	2,011

19. DEFERRED TAXATION LIABILITY/(ASSET)

The deferred tax included in the balance sheet is as follows:

	30 September 2009 £'000	30 September 2008 £'000
Deferred tax liability		
Accelerated capital allowances	**(713)**	(731)
R&D tax credit	**(117)**	(117)
Other	**(20)**	(2)
	(850)	(850)
Deferred tax asset		
Share-based payment	**27**	32
Pension asset	**3**	1
	30	33
Disclosed on the balance sheet	**(820)**	(817)

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

	30 September 2009 £'000	30 September 2008 £'000
Deferred tax in the income statement		
Accelerated capital allowances	**18**	(92)
R&D tax credits	**—**	(33)
Tax losses carried forward	**—**	(41)
Share-based payment	**(1)**	8
Other	**(18)**	1
	(1)	(157)
Impact of change in legislation of industrial buildings on opening balances	**—**	(174)
Deferred income tax expense	**(1)**	(331)

20. FINANCIAL RISK MANAGEMENT POLICY AND FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise three secured bank loans, ten HP agreements, an overdraft facility and cash. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2009

20. FINANCIAL RISK MANAGEMENT POLICY AND FINANCIAL INSTRUMENTS CONTINUED

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 credit worthiness 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 carrying value as at the balance sheet date.

LIQUIDITY RISK

The Company 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 overdraft facility of £1.0m arranged with its principal banker, Lloyds TSB Bank plc. This facility extends until 20 April 2010 and is to provide funding for working capital. On 28 April 2009, the Group renegotiated its other facility with Lloyds TSB Bank plc, being a revolving credit facility for £2.0m, which extends until 30 June 2012. This facility is to provide additional working capital and funding for further capital expenditure, should it be required.

In January 2006, the Company acquired a freehold property and in May and June 2009 the Company acquired the freehold of, and a 999-year lease on, its existing two leased factories. To manage liquidity risk, the Company part-funded these acquisitions using two secured property loans, each repayable over ten years.

FOREIGN EXCHANGE RISK

The Group's policy is that no trading in financial instruments should be undertaken. Spot contracts and forward currency contracts may be used to sell surplus Dollars and Euros, generated from sales less purchases in those currencies. However the Group uses natural hedging as the main basis of minimising its exposure to these currencies.

INTEREST RATE RISK

The Group has not sought to tie itself into fixed rate debt but has instead accepted a degree of interest rate risk from having only floating rate debt. This is because the Group has positive net cash balances, a relatively low level of borrowings and estimates that an increase of 1% in interest rates would not have a material effect on the Group's pre-tax profits.

The main risks arising from the Group's financial instruments are as follows:

- foreign currency risk – the magnitude of this risk that has arisen over the period is detailed below; and
- interest rate risk on floating rate financial liabilities to the extent not covered by interest rate benefit on floating rate financial assets – details of floating rate financial liabilities and assets are below.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

	Increase/ decrease in basis points	Effect on profit before tax £'000
2009		
Sterling	**+ 100**	**(29)**
	– 100	**29**
2008		
Sterling	+ 100	(14)
	– 100	14

The floating rate financial assets comprise cash. The benchmarks for floating rates on both liabilities and assets is LIBOR and Bank of England base rate.

20. FINANCIAL RISK MANAGEMENT POLICY AND FINANCIAL INSTRUMENTS CONTINUED

CURRENCY EXPOSURES

The table below shows the Group's currency exposures; in other words, those transactional exposures that give rise to the net currency gains and losses recognised in the income statement. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating currency of the Group.

These currency exposures were:

	Net foreign currency monetary assets		
	US Dollar £'000	Euro £'000	Total £'000
30 September 2009	**384**	**163**	**547**
30 September 2008	67	235	302

The year-end net foreign currency monetary assets comprise cash and trade receivable balances less trade payable balances. These are the inherent constituents of the natural hedging policy whereby foreign currency sales are turned into cash for the settlement of purchases of goods denominated in those foreign currencies. Cash at a month end is held to settle creditors' payments due in the next two months and to meet future anticipated capital expenditure in those currencies.

MATURITY PROFILE OF FINANCIAL LIABILITIES

YEAR ENDED 30 SEPTEMBER 2009

	On demand £'000	**<3 months £'000**	**3–12 months £'000**	**1–5 years £'000**	**>5 years £'000**	**Total £'000**
Interest-bearing loans and borrowings	**630**	**195**	**677**	**1,887**	**902**	**4,291**
Trade and other payables	**1,502**	**378**	**—**	**—**	**—**	**1,880**
Total	**2,132**	**573**	**677**	**1,887**	**902**	**6,171**

Interest-bearing loans and borrowings comprise principal repayments due of £3.87m and contractual interest payments of £421,000. Interest is calculated based on interest rates prevailing at the balance sheet date.

YEAR ENDED 30 SEPTEMBER 2008

	On demand £'000	<3 months £'000	3–12 months £'000	1–5 years £'000	>5 years £'000	Total £'000
Interest-bearing loans and borrowings	609	168	492	1,085	135	2,489
Trade and other payables	1,364	649	—	—	—	2,013
Total	1,973	817	492	1,085	135	4,502

FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair value of all financial assets and liabilities is not significantly different to their carrying amount.

Set out below is a comparison by category of book values and fair values of the Group's financial assets and financial liabilities:

	Book value		Fair value	
	2009 £'000	2008 £'000	**2009 £'000**	2008 £'000
Financial assets				
Cash and short term deposits	**739**	1,260	**739**	1,260
Financial liabilities				
Overdraft	**(630)**	(609)	**(630)**	(609)
Bank loans	**(3,241)**	(1,661)	**(3,241)**	(1,661)
	(3,132)	(1,010)	**(3,132)**	(1,010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2009

21. SHARE CAPITAL AND SHARE-BASED PAYMENTS

(A) SHARE CAPITAL

	2009 Number Thousands	2008 Number Thousands	**2009 £'000**	2008 £'000
Authorised:				
Ordinary shares of 1p each	**25,000**	25,000	**250**	250
Allotted, called up and fully paid:				
Ordinary shares 1p each	**14,674**	14,674	**147**	147

During the year the Group had three share option schemes, an Unapproved Executive Option Scheme, an Enterprise Management Incentive ("EMI") Scheme and a Sharesave Scheme. Under these schemes, options to subscribe for the Company's shares have been granted as follows:

	30 September 2008 Number	Granted during year Number	Exercised during year Number	Lapsed during year Number	**30 September 2009 Number**	Exercise dates	Option price
Unapproved Executive Scheme	36,363	—	—	—	**36,363**	7 June 2003 to 6 June 2010	110.0p
	12,700	—	—	—	**12,700**	28 February 2011 to 27 February 2018	216.5p
Sharesave Scheme (2008) – 3 year term	53,745	—	—	1,570	**52,175**	1 April 2011 to 30 September 2011	220.0p
– 5 year term	28,402	—	—	—	**28,402**	1 April 2013 to 30 September 2013	220.0p
EMI Scheme	100,000	—	—	—	**100,000**	16 March 2006 to 15 March 2014	70.0p
	91,408	—	—	—	**91,408**	18 January 2008 to 17 January 2015	145.5p
	82,250	—	—	—	**82,250**	11 January 2009 to 10 January 2016	274.5p
	87,800	—	—	—	**87,800**	28 February 2011 to 27 February 2018	216.5p
	—	36,500	—	—	**36,500**	19 February 2012 to 18 February 2019	106.0p

Performance conditions have not been attached to the share options awarded under the EMI Scheme.

(B) SHARE-BASED PAYMENTS

SENIOR EXECUTIVE PLANS

Share options are granted to senior executives at the discretion of the remuneration committee. The exercise price of the options is equal to the market price of the shares at the date of grant. The options vest three years from the date of grant. The contractual life of each option granted is ten years. There are no cash settlement alternatives.

ALL EMPLOYEE SHARE-OPTION PLAN, THE SHARESAVE SCHEME

Periodically the Board of Directors will agree to the setting up of a new Sharesave Scheme for all employees under the SAYE regulations. All employees are entitled to apply for a grant of options once they have been in service for three months. The options will vest if the employee remains in service for a period of three or five years from the date of grant. The exercise price of the options is equal to the market price of the shares less a discount decided by the Board of Directors on the date of grant. The contractual life of the options is three or five years with a six-month exercise period.

21. SHARE CAPITAL AND SHARE-BASED PAYMENTS CONTINUED

(B) SHARE-BASED PAYMENTS CONTINUED

INCOME STATEMENT EXPENSE FOR YEAR ENDED 30 SEPTEMBER 2009

The expense recognised for share-based payments in respect of employee services received during the year to 30 September 2009 is £29,000 (2008: £34,000).

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

	2009 Number	**2009 WAEP Pence**	2008 Number	2008 WAEP Pence
Outstanding at 30 September*	**692,668**	**154.1**	326,965	149.2
Granted during the year	**36,500**	**106.0**	384,392	117.6
Lapsed during the year	**(1,570)**	**220.0**	(6,745)	260.4
Exercised during the year	**—**	**—**	(11,944)	44.0**
Outstanding at 30 September	**727,598*** **	**159.5**	692,668	154.1
Exercisable at 30 September	**310,024**	**151.2**	242,998	106.7

* Included within this balance are options over 136,363 (2008: 136,363) shares that have not been recognised in accordance with IFRS 2 as the options had vested before 1 October 2006. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

** The weighted average share price at the date of exercise for the options exercised is 193.5p.

*** Included within this balance are 200,000 shares belonging to the Director's share incentive scheme.

For the share options outstanding as at 30 September 2009, the weighted average remaining contractual life is 5 years (2008: 6 years).

There was one grant of options during the year, as shown in note 21(a). The weighted average fair value of options granted during the year was 20.0p (2008: 49.5p). The range of exercise prices for options outstanding at the end of the year was 70.0p to 274.5p (2008: 70.0p to 274.5p).

The fair value of equity-settled share options granted is estimated as at the date of grant using a model designed by the Quoted Company Alliance (based on a Black-Scholes-Merton model), taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 30 September 2009 and 30 September 2008:

	2009	2008
Dividend yield	**3.5%**	2.1%
Expected share price volatility	**30.0%**	30.0%
Risk-free interest rate	**4.2%**	4.3%
Expected life of option (years)	**3.0 to 5.0**	3.5 to 5.0

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other features of options grant were incorporated into the measurement of fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2009

21. SHARE CAPITAL AND SHARE-BASED PAYMENTS CONTINUED

(C) DIRECTOR'S SHARE INCENTIVE SCHEME

SHARE INCENTIVE SCHEME FOR MARK CAMBRIDGE, CHIEF EXECUTIVE

The remuneration committee agreed an incentive award scheme for Mark Cambridge, Chief Executive, to offer him up to 200,000 shares at a price of 25p per share to vest based on specified performance criteria.

These are measured by an EPS calculated on the audited pre-tax profit and a standard 28% tax charge. The EPS criteria are shown below:

	Performance criteria			
	Lower limit		Upper limit	
	EPS Pence	Shares to vest	EPS Pence	Shares to vest
Year to 30 September 2009 (year 1)	13.5	80,000	15.0	100,000
Year to 30 September 2010 (year 2)	18.3	60,000	22.0	80,000
Year to 30 September 2011 (year 3)	24.5	60,000	24.5	20,000

Vesting is:

- the entitlement to buy, which doesn't disappear once earned;
- pro rata between the upper and lower limits;
- timed on signature of audited accounts with a clean audit report; and
- cumulative, e.g. 200,000 shares can vest in year 3 if the upper limit is reached, even if the lower limits have not been achieved in the previous years.

If the 24.5p EPS criteria is not achieved in year 3, there will still be an opportunity for shares to vest in year 4 (to 30 September 2012) or year 5 (to 30 September 2013) on the achievement of 24.5p EPS on the basis that, on achievement, the maximum total entitlement reduces to 125,000 shares or 50,000 shares respectively, or the number of shares already vested if that is greater.

Vesting will also take place in the event of a successful takeover and will be based on the takeover price, with full vesting at a share price of 500p and pro rata vesting down to a price of 300p as follows:

- 1,000 shares for each 1p above 300p up to 500p until 30 September 2011, reduced for any shares which have already vested;
- 625 shares for each 1p above 300p up to 500p between 1 October 2011 and 30 September 2012, reduced for any shares which have already vested; and
- 250 shares for each 1p above 300p up to 500p between 1 October 2012 and 30 September 2013, reduced for any shares which have already vested.

22. RECONCILIATION OF MOVEMENTS IN EQUITY

	Called up share capital* £'000	Share premium** £'000	Retained earnings £'000	Total £'000
At 30 September 2007	147	6,473	1,601	8,221
Exercise of share options	—	6	—	6
Total recognised income and expense for the year	—	—	1,061	1,061
Share-based payments	—	—	34	34
Dividends	—	—	(440)	(440)
At 30 September 2008	147	6,479	2,256	8,882
Exercise of share options	—	—	—	—
Total recognised income and expense for the year	—	—	1,703	1,703
Share-based payments	—	—	29	29
Dividends	—	—	(616)	(616)
At 30 September 2009	**147**	**6,479**	**3,372**	**9,998**

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

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

23. CAPITAL COMMITMENTS

Amounts contracted for at 30 September 2009 but not provided in the financial statements amounted to £25,000 (2008: £Nil) for the Group.

24. PENSION SCHEME COMMITMENTS

Contributions for the year ended 30 September 2009 amounted to £48,000 (2008: £43,000) and the outstanding contributions at the balance sheet date were £7,600 (2008: £5,000). The Group is a member of a group personal pension scheme which is a defined contribution scheme. Contributions are charged to the income statement as they become payable in accordance with the rules of the scheme.

25. RELATED PARTY TRANSACTIONS

Fees are paid to David Banks Associates, a partnership in which David Banks is a partner. There are no other 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 payable to the Directors:

	2009 **£'000**	2008 £'000
Salaries/fees	**388**	353
Bonus	**9**	16
Pension contributions	**6**	5
Share-based payments	**2**	2
	405	376

26. GUARANTEES

Zytronic plc has given a guarantee to Yorkshire Bank in connection with the bank loan and HP agreements detailed in notes 17a and 17d and to Lloyds TSB Bank plc in connection with the overdraft facility and the revolving credit facility detailed in note 20.

FIVE-YEAR SUMMARIES

CONSOLIDATED INCOME STATEMENT

FOR THE FIVE YEARS ENDED 30 SEPTEMBER 2005 TO 2009

	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Group revenue	**15,921**	14,717	11,437	12,301	10,590
Cost of sales	**10,514**	9,978	7,971	8,449	7,312
Gross profit	**5,407**	4,739	3,466	3,852	3,278
Distribution costs	**183**	217	197	170	140
Administration expenses	**2,850**	2,675	2,556	2,356	2,137
Group trading profit	**2,374**	1,847	713	1,326	1,001
Other operating income	**20**	27	36	—	—
Group operating profit from continuing activities	**2,394**	1,874	749	1,326	1,001
Finance costs	**(98)**	(146)	(73)	(59)	(33)
Finance revenue	**4**	12	7	6	16
Profit from continuing operations	**2,300**	1,740	683	1,273	984
Tax expense	**(593)**	(677)	(149)	(153)	(310)
Profit for the period from continuing operations	**1,707**	1,063	534	1,120	674
Earnings per share					
Earnings per share – basic	**11.6p**	7.3p	3.6p	7.8p	4.7p
Earnings per share – diluted	**11.5p**	7.2p	3.6p	7.7p	4.6p
Dividends per share	**4.2p**	3.0p	3.0p	2.5p	0.5p

The results for the years ended 30 September 2007 to 2009 are presented under IFRS whilst the results for the years ended 30 September 2005 and 2006 are presented under UK GAAP.

In the years ended 30 September 2005 and 2006, there were no recognised gains or losses as defined in FRS 3 other than those stated above. The consolidated income statement on page 30 shows the consolidated statement of recognised income and expense for the year ended 30 September 2009.

The results for all the above years derive from continuing operations.

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

CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2005 TO 2009

	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Assets					
Non-current assets					
Intangible assets	**1,974**	2,058	2,122	2,120	2,133
Property, plant and equipment	**8,375**	5,315	5,208	3,737	2,494
Trade and other receivables	**210**	210	194	—	—
	10,559	7,583	7,524	5,857	4,627
Current assets					
Inventories	**2,503**	2,496	1,828	1,706	1,201
Trade and other receivables	**3,110**	3,039	2,767	2,852	2,641
Cash and short term deposits	**739**	1,260	317	931	810
	6,352	6,795	4,912	5,489	4,652
Total assets	**16,911**	14,378	12,436	11,346	9,279
Equity and liabilities					
Current liabilities					
Trade and other payables	**1,306**	1,480	1,376	1,167	1,154
Financial liabilities	**1,442**	1,182	621	653	233
Accruals and deferred income	**574**	533	399	466	253
Taxation liabilities	**300**	341	—	28	238
	3,622	3,536	2,396	2,314	1,878
Non-current liabilities					
Financial liabilities	**2,428**	1,088	1,340	658	161
Deferred tax liabilities	**820**	817	479	266	239
Government grants	**43**	55	—	—	—
	3,291	1,960	1,819	924	400
Total liabilities	**6,913**	5,496	4,215	3,238	2,278
Net assets	**9,998**	8,882	8,221	8,108	7,001
Capital and reserves					
Equity share capital	**147**	147	147	146	143
Share premium	**6,479**	6,479	6,473	6,450	6,215
Revenue reserve	**3,372**	2,256	1,601	1,512	643
Total equity	**9,998**	8,882	8,221	8,108	7,001

The results for the years ended 30 September 2006 to 2009 are presented under IFRS whilst the results for the year ended 30 September 2005 are presented under UK GAAP.

COMPANY ACCOUNTS

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RELATION TO THE PARENT COMPANY FINANCIAL STATEMENTS

The Directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). These financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the 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.

The Directors confirm that the financial statements comply with the above requirements.

PARENT COMPANY AUDITORS' REPORT

TO THE MEMBERS OF ZYTRONIC PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ZYTRONIC PLC

We have audited the Parent Company financial statements of Zytronic plc for the year ended 30 September 2009 which comprise the Parent Company balance sheet and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Sections 495 and 496 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 auditors' 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.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' responsibilities statement set out on page 57, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Director's remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the Parent Company financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Director's remuneration report to be audited 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.

OTHER MATTER

We have reported separately on the Group financial statements of Zytronic plc for the year ended 30 September 2009.

DEBBIE O'HANLON (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF ERNST & YOUNG LLP STATUTORY AUDITOR
NEWCASTLE-UPON-TYNE
16 December 2009

PARENT COMPANY BALANCE SHEET

AT 30 SEPTEMBER 2009

	Notes	2009 £'000	2008 £'000
Fixed assets			
Tangible assets	3	**5,008**	1,543
Investments	4	**9,448**	9,448
		14,456	10,991
Current assets			
Debtors:			
– amounts falling due within one year	5	**306**	1,290
– amounts falling due after one year	5	**3,000**	4,000
Cash at bank and in hand		**736**	332
		4,042	5,622
Creditors: amounts falling due within one year	6	**431**	265
Net current assets		**3,611**	5,357
Total assets less current liabilities		**18,067**	16,348
Creditors: amounts falling due after more than one year	7	**2,378**	529
Provisions for liabilities and charges			
Deferred tax	9	**65**	51
		15,624	15,768
Capital and reserves			
Called up share capital	10	**147**	147
Share premium	11	**6,479**	6,479
Profit and loss account	11	**8,998**	9,142
Shareholders' funds		**15,624**	15,768

These financial statements have been approved by the Board of Directors on 8 December 2009 and signed on their behalf by:

JOHN KENNAIR, MBE
CHAIRMAN
16 December 2009

DENIS MULLAN, B.SC, FCA
FINANCE DIRECTOR

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2009

1. ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

The financial statements of Zytronic plc were approved for issue by the Board of Directors on 16 December 2009. The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

A profit and loss account is not presented for the Company as permitted by Section 408 of the Companies Act 2006 and the Company has taken the exemptions under IFRS 1 not to present a cashflow statement.

The Company has taken advantage of the exemption available to parent companies under FRS 29 Financial Instruments: Disclosures so as not to provide the information otherwise required by the standard, as the Group's consolidated financial statements, in which the Company is included, provide equivalent disclosures under IFRS 7 Financial Instruments and Disclosure.

(B) REVENUE RECOGNITION

Rental income from tenants is recognised in the profit and loss account on a straight line basis over the term of the lease.

(C) SHARE-BASED PAYMENTS

EQUITY-SETTLED TRANSACTIONS

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, account is not taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

An expense is not recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the profit and loss account for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the profit and loss account.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2009

1. ACCOUNTING POLICIES CONTINUED

(D) TANGIBLE FIXED ASSETS

Property, plant and machinery is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended. Borrowing costs attributable to assets under construction are recognised as an expense when incurred.

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the costs, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold land	– Nil
Freehold property	– 50 years
Short leasehold property	– over the term of the lease
Plant and machinery	– varying rates between 5% and 25% per annum

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. The expected useful lives of assets are reviewed annually.

(E) DEFERRED TAXATION

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the exception of deferred tax assets which 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 a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

(F) INTEREST-BEARING LOANS AND BORROWINGS

All interest-bearing loans and borrowings are initially recognised at net proceeds, being fair value of the consideration received net of issue costs associated with the borrowings. Finance costs (including issue costs) are taken to the profit and loss account over the term of the debt at a constant rate on the balance sheet carrying amount. The carrying amount is increased by the finance charges amortised and reduced by payments made in respect of the accounting period.

(G) PENSIONS

The Company is a member of a group personal pension scheme which is a defined contribution scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

2. AUDITORS' REMUNERATION

Auditors' remuneration for the year ended 30 September 2009 was £36,000 (2008: £34,000).

3. TANGIBLE FIXED ASSETS

	Land £'000	Freehold property £'000	Long leasehold property £'000	Total £'000
Cost				
At 30 September 2008	100	1,499	—	1,599
Additions	107	1,461	1,950	3,518
At 30 September 2009	**207**	**2,960**	**1,950**	**5,117**
Depreciation				
At 30 September 2008	—	56	—	56
Provided during the year	—	40	13	53
At 30 September 2009	**—**	**96**	**13**	**109**
Net book value at 30 September 2009	**207**	**2,864**	**1,937**	**5,008**
Net book value at 30 September 2008	100	1,443	—	1,543

4. INVESTMENTS

INVESTMENTS IN SUBSIDIARY COMPANIES

	2009 £'000	2008 £'000
Shares in subsidiary companies:		
At beginning and end of year	**9,448**	9,448

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	Holding	Proportion of voting rights and shares held	Nature of business
Zytronic Displays Limited	Ordinary shares	100%	Manufacture of transparent composites, including touch sensors
Intasolve Limited	Ordinary shares	100%	Dormant
Zytronic Glass Products Limited	Ordinary shares	100%	Dormant

The trading subsidiary is incorporated in England.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2009

5. DEBTORS

	2009 £'000	2008 £'000
Trade debtors	**2**	9
Amounts owed by Group undertakings	**3,275**	5,273
Prepayments and accrued income	**29**	8
	3,306	5,290

Amounts falling due after more than one year included above are:

	2009 £'000	2008 £'000
Amounts owed by Group undertakings	**3,000**	4,000

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2009 £'000	2008 £'000
Bank loans (note 8)	**303**	64
Trade creditors	**23**	11
Other creditors and accruals	**24**	109
Other amounts owed to subsidiary undertakings	**81**	81
	431	265

7. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2009 £'000	2008 £'000
Bank loans (note 8)	**2,378**	529

8. BANK LOANS

On 13 January 2006, Zytronic plc drew down funds under a ten-year mortgage with Lloyds TSB Bank plc under which it borrowed £750,000, repayable by monthly instalments. The loan is secured against its freehold interest in Britannia Court, the freehold factory premises which it acquired in January 2006. Interest is payable at 1.25% above that bank's base rate.

On 4 June 2009, Zytronic plc borrowed £2.25m under a ten-year mortgage with Alliance & Leicester Commercial Bank, repayable by monthly instalments. The loan is secured against its freehold interest in Haworth Court and its interest in a 999-year long leasehold on its main factory. Previous to these acquisitions of these interests, the Group occupied these premises on leases expiring in 2019. Interest is payable at 2.5% above three month LIBOR. The balance is shown net of issue costs which are being amortised over the life of the loan.

9. DEFERRED TAXATION LIABILITY

The deferred tax included in the balance sheet is as follows:

	2009 £'000	2008 £'000
Accelerated capital allowances	**63**	43
Other timing differences	**2**	8
	65	51
At 1 October	**51**	27
Charged in the profit and loss account	**14**	24
At 30 September	**65**	51

10. SHARE CAPITAL AND SHARE-BASED PAYMENTS

(A) SHARE CAPITAL

	2009 Number Thousands	2008 Number Thousands	**2009 £'000**	2008 £'000
Authorised:				
Ordinary shares of 1p each	**25,000**	25,000	**250**	250
Allotted, called up and fully paid:				
Ordinary shares 1p each	**14,674**	14,674	**147**	147

Note 21(a) in the Group financial statements sets out the details of the share option schemes of the Group and the numbers of shares in the Parent Company which are contingently exercisable under them.

(B) SHARE-BASED PAYMENTS

Note 21(b), share-based payments, in the Group financial statements identifies the bonus of the Senior Executive Plans and the Sharesave Scheme. It also contains a table which illustrates the number and weighted average exercise prices of, and movements in, share options during the year.

(C) DIRECTOR'S SHARE INCENTIVE SCHEME

Note 21(c) in the Group financial statements sets out the details of the share incentive award scheme for Mark Cambridge, Chief Executive, in shares of the Parent Company.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2009

11. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Called up share capital £'000	Share premium £'000	Profit and loss account £'000	Total £'000
At 30 September 2008	147	6,479	9,142	15,768
Exercise of share options	—	—	—	—
Profit on ordinary activities after taxation	—	—	470	470
Share-based payments	—	—	2	2
Dividends	—	—	(616)	(616)
At 30 September 2009	**147**	**6,479**	**8,998**	**15,624**

A profit of £470,000 (2008: £293,000), before payments of dividends of £616,000 (2008: £440,000), has been dealt with in the financial statements of the Company which, under the exemption contained in Section 408 of the Companies Act 2006, has not presented its own profit and loss account.

Included in the Company's opening and closing profit and loss account reserves is an amount of £8,919,000 which was a dividend received from a subsidiary company in a prior year. This is not included in Group reserves and does not form part of the Company's distributable reserves.

12. PENSION SCHEME COMMITMENTS

Contributions for the year ended 30 September 2009 amounted to £2,600 (2008: £2,500) and the outstanding contributions at the balance sheet date were £3,800 (2008: £1,200).

13. GUARANTEES

Zytronic plc has given guarantees, regarding funding advanced to Zytronic Displays Limited, to Yorkshire Bank in connection with a bank loan and HP agreements detailed in notes (a) and (b) and to Lloyds TSB Bank plc in connection with an overdraft facility and a revolving credit facility detailed in note (c) below.

(A) CHATTEL MORTGAGE

On 28 September 2004, Zytronic Displays Limited entered into a term loan with Yorkshire Bank which is secured by a chattel mortgage over certain items of plant and machinery. Interest is payable at 1% above that bank's base rate. The original loan of £250,000, repayable in 36 equal monthly instalments was paid off in November 2007. On 23 November 2007, an additional amount of £100,000 was borrowed under the terms of the same chattel mortgage, again repayable by 36 equal monthly instalments.

(B) HP AGREEMENTS

In September 2007, Zytronic Displays Limited put in place six HP agreements with Yorkshire Bank. These agreements provide longer term funding for some of the significant capital expenditure incurred in the refurbishment of Britannia Court and its equipping as a manufacturing facility for ZYPOS and other touch sensors. The net amounts advanced under those HP agreements total £1.123m and the term of each is three years. In the year ended 30 September 2008, a further four HP agreements were put in place with Yorkshire Bank to provide the final funding for equipping the new manufacturing facility. These agreements total £0.338m and are also repayable over three years.

(C) BORROWING FACILITIES

The Group has an unsecured overdraft facility of £1.0m arranged with its principal banker, Lloyds TSB Bank plc. This facility extends until 20 April 2010. This facility is to provide funding for working capital. On 28 April 2009, the Group entered into an additional facility with Lloyds TSB Bank plc, being a revolving credit facility for £2.0m, which extends until 30 June 2012. This facility is to provide additional working capital and funding for capital expenditure, should it be required.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at Whiteley Road, Blaydon-on-Tyne, Tyne & Wear NE21 5NJ on 11 February 2010 at 2.00pm for the following purposes:

ORDINARY BUSINESS

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

1. To receive the financial statements for the year ended 30 September 2009 and the reports of the Directors and auditors thereon.
2. To pay a final dividend of 3.8p per ordinary share of 1.0p for the year ended 30 September 2009 on 26 February 2010 to members on the Register at the close of business on 12 February 2010.
3. To re-elect Mark Cambridge as a Director.
4. To re-elect David Banks as a Director.
5. To re-appoint Ernst & Young LLP as auditors and to authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

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

1. The Directors of the Company be and are hereby generally and unconditionally authorised (in substitution for any previous authority) for the purposes of Section 551 of the Companies Act 2006 (as amended) (the "Act") to exercise all the powers of the Company to allot shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company (such shares and such rights to subscribe for or to convert any security into shares in the Company being "relevant securities") on such terms and in such manner as they shall think fit, up to a maximum aggregate nominal amount of £48,913.74 at any time (unless and to the extent previously revoked, varied or renewed by the Company in general meeting) during the period from the date hereof until the conclusion of the Company's Annual General Meeting held in 2011 provided that the Directors of the Company may make an offer or enter into an agreement which would or might require relevant securities to be allotted offered or otherwise dealt with or disposed of after the expiry of such authority and the Directors may allot any relevant securities after the expiry of such authority in pursuance of any such offer or agreement as if this authority had not expired.
2. Subject to and conditional upon the passing of special resolution 1 above, the Directors of the Company be given power pursuant to Sections 570 and 573 of the Act to allot equity securities (as defined in Section 560 of the Act) of the Company for cash pursuant to the authority, conferred by special resolution 1 above, as if Section 561 of the Act did not apply to any such allotment, such power to expire at the conclusion of the Company's Annual General Meeting held in 2011 provided that before such expiry the Directors of the Company may make an offer or enter into an agreement which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities after such expiry under this power in pursuance of any such offer or agreement as if this power had not expired. This power is limited to:

   2.1 the allotment of equity securities for cash in connection with a rights issue or other pre-emptive offer to holders of ordinary shares of 1.0p each in the capital of the Company where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be practicable) to the respective numbers of ordinary shares of 1.0p each in the capital of the Company held by them but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any fractional entitlements or any legal or practical problems under the laws of, or the requirements of any regulatory body or any recognised stock exchange in, any territory; and

   2.2 the allotment (other than pursuant to 2.1 of this special resolution) of equity securities up to a maximum aggregate nominal amount of £7,337.07.

   This power applies in relation to any sale of shares which is an allotment of equity securities by virtue of Section 560(3) of the Act as if in the first paragraph of this resolution the words "pursuant to the authority conferred by special resolution 1 above," were omitted.

NOTICE OF ANNUAL GENERAL MEETING CONTINUED

SPECIAL BUSINESS CONTINUED

3. 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 of 1.0p each in the capital of the Company (for the purposes of this special resolution 3 "Shares") provided that:

   3.1 the maximum number of Shares hereby authorised to be purchased shall be 1,467,412;

   3.2 the minimum price which may be paid for a Share shall be 1.0p;

   3.3 the maximum price which may be paid for a Share shall be not more than 5% above the average of the middle market quotations for Shares as derived from the London Stock Exchange daily list for securities admitted to the AIM market of the London Stock Exchange for the five business days immediately preceding the date of the purchase of the Share; and

   3.4 unless previously renewed, revoked or varied, the authority hereby conferred shall expire at the conclusion of the Company's Annual General Meeting held in 2011 save that the Company may, prior to such expiry, enter into a contract to purchase Shares which will or may be executed wholly or partly after the expiry of such authority and may purchase Shares pursuant to such contract as is such authority has not expired;

   and that all 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

DENIS MULLAN, B.SC, FCA
COMPANY SECRETARY
ZYTRONIC PLC
WHITELEY ROAD
BLAYDON-ON-TYNE
TYNE & WEAR NE21 5NJ
16 December 2009

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 is enclosed. Completed forms of proxy must be returned to the Company's Registrars at the address shown on the form of proxy not later than 2.00pm on Tuesday 9 February 2010 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.

2. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), specifies that only those holders of ordinary shares of 1.0p each of the Company registered in the Register of Members of the Company as at;

   2.1 4.00 pm on 9 February 2010; or

   2.2 if this meeting is adjourned, at 4.00pm two working days prior to the adjourned meeting:

   shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares of 1.0p each in the capital of the Company registered in their name at that time. Changes to entries on the Register of Members after 4.00 pm on 9 February 2010 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

3. Copies of contracts of service between 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.

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